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ABSTRACT

Hearings held before the Senate Subcommittee on Education, Arts, and Humanities on the Student Assistance Amendments of 1981 are presented, along with the text of S. 1108. A major objective of the bill is to amend Title IV of the Higher Education Act of 1965 to emphasize the element of need in the Guaranteed Student Loan (GSL) program and the Direct Student Loan Program. It would eliminate convenience borrowing in the GSL program, but it would retain the critically important in-school interest subsidy for all students, while affording middle income families with high college costs continued access to loans. In the Pell grant program, S. 1108 would allow the Secretary of Education to establish a series of progressive assessment rates on discretionary income, subject to the congressional review process, which would offer greater equity to the lowest income students for whom the program was intended. Attention also is directed to the Reagan plan, which proposes to reduce student GSL demand by eliminating the interest-free feature on all new loans and to limit eligibility on the basis of need. The Administration proposal also would charge a market rate of interest for the recently authorized parent loan option under the GSL program. Supplementary materials include: a discussion paper from the Washington office of the College Board, "Options for Controlling Federal Costs While Preserving Needed Credit for College;" and "Votes by Which Higher Education Legislation Passed Since 1965, Date of First Enactment," submitted by Senator Randolph. (SW)

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STUDENT ASSISTANCE AMENDMENTS OF 1981

ED212205

HEARING

BEFORE THE

SUBCOMMITTEE ON EDUCATION, ARTS AND HUMANITIES

OF THE

COMMITTEE ON LABOR AND HUMAN RESOURCES UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

FIRST SESSION

ON

S. 1108

TO AMEND TITLE IV OF THE HIGHER EDUCATION ACT OF 1965, TO EMPHASIZE THE ELEMENT OF NEED IN THE GUARANTEED STUDENT LOAN PROGRAM AND THE DIRECT STUDENT LOAN PROGRAM, AND FOR OTHER PURPOSES

MAY 11, 1981

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STUDENT ASSISTANCE AMENDMENTS OF 1981

MONDAY, MAY 11, 1981

U.S. SENATE,
SUBCOMMITTEE ON EDUCATION, ARTS, AND HUMANITIES,
COMMITTEE ON LABOR AND HUMAN RESOURCES,
Washington, D.C.

The subcommittee met at 10:07 a.m., in room 4232, Dirksen Senate Office Building, Senator Robert T. Stafford (chairman of the subcommittee) presiding.

Present: Senators Stafford, Randolph, and Pell.

OPENING STATEMENT OF SENATOR STAFFORD

Senator STAFFORD. The Subcommittee on Education, Arts, and Humanities will please come to order.

The Education, Arts, and Humanities Subcommittee is today convening this hearing to consider changes in the student financial assistance programs under its jurisdiction. Changes are necessitated by the Senate's adoption of Senate Concurrent Resolution 9 last month to restrain the growth of the Pell grant and guaranteed student loan programs in accordance with the savings targets for these programs established under that reconciliation resolution. The targets for savings in these programs for the next fiscal year, fiscal year 1982, are $711 million for Pell grants and $566 million in guaranteed student loans.

I convene this hearing not out of any great desire to see cutbacks in these programs, but rather because we on this committee are constrained by the action of the whole Senate in passing the reconciliation resolution and thus we must make changes in the structure of student aid. If we members of the Education Subcommittee, many of whom have had some considerable experience with these programs, do not take the initiative to make the necessary modifications, then we run the very great risk, absent our initiative, of seeing changes enacted which could well be inimical to the best interests of students and parents.

Indeed, this hearing is being held with a considerable sense—at least from the perspective of the chairman—of déjà vu. Little more than 6 months ago, Congress passed the Education Amendments of 1980 which, to this Senator, provided an optimal framework for Federal student assistance. That legislation was painstakingly constructed, taking more than 2 years to develop, during which time a panoply of policy questions related to student aid were fully addressed—including the need, particularly expressed by our Senate colleagues, to contain the costs of the guaranteed student loan program.

Now we are back again, constrained to achieve substantial short-term savings in an entitlement program—guaranteed student loans—which does not lend itself to quick-fix solutions, and to essentially vitiate many of the improvements made by Congress last year in the Pell grant program.

Accordingly, I introduced legislation last week, S. 1108, for the consideration of our subcommittee, which would make these changes in accordance with the reconciliation instruction. I harbor no illusions as to whether this proposal represents an optimum policy for Federal student aid. I believe the current Higher Education Act remains the best policy for assisting in the education and training of those who will lead us in the future. Rather, S. 1108, which I have floated as a trial balloon as one option for achieving the required savings, is perhaps the least imperfect of a number of imperfect alternatives. It would eliminate convenience borrowing in the GSL program, but it would retain the critically important in-school interest subsidy for all students, while affording middle income families with high college costs continued access to loans. In the Pell grant program, S. 1108 would allow the Secretary of Education to establish a series of progressive assessment rates on discretionary income, subject to the congressional review process, which would offer greater equity to the lowest income students for whom the program was intended.

Other legislation to effect the targeted savings has been proposed by the administration. I cannot lend my support to that proposal at this time, as it removes the in-school interest payment in GSL, which would result in unreasonable debt burdens for students. Nor do I believe that the substantial increase, called for in the administration bill, in family and self-help student contributions, are warranted at a time when the increase in college costs exceeds the rate of inflation.

Earlier this week, a CBS News/New York Times nationwide poll of political party preferences and policy choices indicated that only 20 percent of Democrats and 31 percent of Republicans supported reductions in federally supported loans to college students. That is, apparently, far from a popular mandate to cut student aid. As I stated on the Senate floor during the debate over the reconciliation resolution, I have been a strong advocate for education funding, and the process of reducing funding is especially difficult. The money we spend at the Federal level to educate our young people is an essential investment in our future. Other programs might be suspended or reduced, to be continued at a later date without great national harm. This is not true for education—if our current policies fail to support America's students today, we must anticipate reduced achievement from them tomorrow.

It is my hope that the testimony here today will help us better understand the delicate balance among students, parents, colleges, banks, and Government in student aid programs, and help us formulate judiciously a viable policy of financial assistance which is equitable for all students.

[The text of S. 1108 follows:]

II

97TH CONGRESS
1ST SESSION

S. 1108

To amend title IV of the Higher Education Act of 1965, to emphasize the element of need in the guaranteed student loan program and the direct student loan program, and for other purposes.

IN THE SENATE OF THE UNITED STATES

MAY 5 (legislative day, APRIL 27), 1981

Mr. STAFFORD introduced the following bill; which was read twice and referred to the Committee on Labor and Human Resources

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A BILL

To amend title IV of the Higher Education Act of 1965, to emphasize the element of need in the guaranteed student loan program and the direct student loan program, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Student Assistance Amendments of 1981".

NEEDS BASIS FOR FEDERAL PAYMENTS TO REDUCED STUDENT INTEREST COSTS

SEC. 2. Section 428(a)(2) of the Higher Education Act of 1965 is amended to read as follows:

"(2)(A) Each student qualifying for a portion of an interest payment under paragraph (1) shall—

"(i) have provided to the lender a statement from the eligible institution, at which the student has been accepted for enrollment, or at which the student is in attendance in making satisfactory progress (as determined by such institution), which—

"(I) sets forth such student's estimated cost of attendance; and

"(II) sets forth such student's estimated financial assistance; and

"(ii) meet the requirements of subparagraph (B).

"(B) For the purpose of clause (ii) of subparagraph (A), a student shall qualify for a portion of an interest payment under paragraph (1) if such student's adjusted family income—

"(i) is less than or equal to $25,000; or

"(ii) is greater than $25,000, and the eligible institution has provided the lender with a statement evidencing a determination of need and recommending a loan in the amount of such need.

"(C) For the purpose of paragraph (1) and this paragraph—

"(i) a student's estimated cost of attendance means, for the period for which the loan is sought, the tuition and fees applicable to such student together with the institution's estimate of other expenses reasonably related to attendance at such institution, including, but not limited to, the cost of room and board, reasonable transportation costs, and costs for books and supplies, pursuant to regulations prescribed by the Secretary;

"(ii) a student's estimated financial assistance means, for the period for which the loan is sought, the amount of assistance such student will receive under subparts 1 and 2 of part A, and parts C and E of this title, any amount paid under the Social Security Act to, on the account of the student which would not be paid if he were not a student, and any amount paid the student under chapters 34 and 35 of title 38, United States Code, plus other scholarship, grant, or loan assistance; and

"(iii) the determination of need and the amount of a loan recommended by an eligible institution under subparagraph (B)(ii) with respect to a student shall be determined by subtracting from the estimated cost of

attendance at the eligible institution the total of the expected family contribution with respect to such student plus any other resources or student financial assistance reasonably available to such student.".

INTEREST RATE ON PARENTAL LOANS

SEC. 3. Section 428B(c)(3) of the Higher Education Act of 1965 is amended by striking out "9 per centum" and inserting in lieu thereof "14 per centum".

NEEDS ANALYSIS AMENDMENTS

SEC. 4. (a) Section 482(b)(3) of the Higher Education Act of 1965 is amended by striking out "one-half".

(b) Section 482(b)(4) of such Act is amended to read as follows:

"(4) In determining the expected family contribution under this section for any academic year after academic year 1980–1981, the Secretary shall set a series of assessment rates to be applied to parental discretionary income.".

(c) Section 482(b)(5) of such Act is amended by—

(1) striking out clause (A);

(2) redesignating clause (B) as clause (A); and

(3) striking out "$10,000" in clause (A) (as redesignated by this subsection) and inserting in lieu thereof "$25,000".

(d) The third sentence of section 482(c) of such Act is repealed.

(e) Section 482(d) is amended to read as follows:

"(d) For the purpose of this title, the term 'cost of attendance' means for the period for which the loan is sought, the tuition and fees applicable to such student together with the institution's estimate of other expenses reasonably related to attendance at such institution, including, but not limited to, the cost of room and board, reasonable transportation costs, and costs for books and supplies.".

REMOVAL OF SEPARATE BORROWING LIMIT FOR INDEPENDENT STUDENTS

SEC. 5. (a)(1) Section 425(a)(1) of the Higher Education Act of 1965 is amended by striking out clause (A), and by redesignating clauses (B), (C), and (D) of such paragraph as clauses (A), (B), and (C), respectively.

(2) Section 425(a)(2) of such Act is amended—

(A) by striking out "(other than an independent student)", and

(B) by striking out "$15,000 in the case of any independent student who has not successfully completed a program of undergraduate education,".

(b)(1) Section 428(b)(1)(A) of such Act is amended—

(A) by striking out "(other than an independent student)", and

(B) by striking out "or not more than $3,000 in the case of an independent student (defined in accord-

ance with section 482(c)(2)) who has not successfully completed a program of undergraduate education,".

(2) Section 428(b)(1)(B) of such Act is amended—

(A) by striking out "(other than an independent student)", and

(B) by striking out "$15,000 in the case of any independent student who has not successfully completed a program of undergraduate education,".

(c) Section 428A(a)(1)(A) of such Act is amended—

(A) by striking out ", other than an independent student,",

(B) by striking out "$3,000 (in the case of an independent student (as defined in section 482(c)(2)) who has not successfully completed a program of undergraduate education),",

(C) by striking out "(other than an independent student)", and

(D) by striking out "$15,000 in the case of any independent student who has not successfully completed a program of undergraduate education,".

EFFECTIVE DATE

SEC. 6. The amendments by this Act shall take effect July 1, 1981.

Senator STAFFORD. For the subcommittee, I am very happy this morning to welcome not only those in the room who are intensely interested in student aid programs, Dr. Alice Rivlin, the Director of the Congressional Budget Office with her accompanying assistants, will be the first witness before the committee, but if she would withhold a minute, I see that my dear friend and long-time partner in many committee activities, Senator Randolph, has arrived. He is most welcome and, Senator Randolph, if you would have an opening statement, I have just completed mine and I would welcome yours.

Senator RANDOLPH. Thank you, Mr. Chairman. As always, you are on time, but I cannot be in West Virginia and here at the same time. It takes sometime to travel between those two points.

Senator STAFFORD. If you ever figure out how to be in both places at once, I hope you will let me know how to do it.

OPENING STATEMENT OF SENATOR RANDOLPH

Senator RANDOLPH. Thank you very much, Mr. Chairman.

This is a very important session today, and I think that several of us, certainly yourself included, have for a period of time—I know I have for 16 years within the subcommittee been working in connection with the support for our Education Act, and for student aid provisions that were enacted in 1965. We are faced with a painful task of considering ways to restrict and, in many cases, remove the opportunity for young people and adults in this country to obtain a college education.

I know that the higher education community strongly opposes the proposed budget cuts and program changes that have been ordered by the Senate when Senate Concurrent Resolution 9 passed in April. It was a resolution of reconciliation of the Federal budget. I do not believe in reconciliation mandates in connection with education, very frankly.

Now, for the sake of brevity, and I am never brief, I will not go into too much detail at this time about the many reasonable concerns that can be and have been expressed as to student aid programs changes and required cost savings, in order to comply with reconciliation. I am confident that we will hear those opposing views from our witnesses who will testify today. There will naturally be witnesses who will also give us a choice of alternate proposals that can achieve cost savings under student aid programs without a drastic effect on the students and institutions concerned.

I pause at this point to say that, only a few days ago, I was in attendance at the annual college commencement from the college in which I graduated, Salem College, in Salem, W. Va. We have, Mr. Chairman, approximately 250 students there who are receiving student guaranteed loans, just as Mr. Stockman, the chief budget cutter for the new administration, also was the recipient of a student loan.

We have a good rate of return of payment. We have kept default rates down constantly so we do not feel that there has been an abuse of the loan process in connection with our students on that campus. We in the Congress are constantly attempting to tighten eligibility and access to loans, so I have the feeling always that the program is soundly constructed and based. The problems that come

are from failure of the institutions, in some cases, in seeing to it that the students were actually checked, what were the payments, how close were they to making them, matters of that kind. And although Federal funds have not been used for actual loan disbursements but are used only to guarantee loans disbursed by the private lenders, I think the Federal Government has also failed miserably in connection with the collection of loans; many, many employees of the Federal Government running into the thousands—have not been repaying these loans, or are constantly delinquent. Perhaps this is the reason why we failed—not the idea, not the program, not the objective, but the failure to establish better loan collection activities.

I think it is important for the members of our subcommittee to develop modifications to the proposals of the administration, and so the views that we will receive here today, hopefully, can help us toward that end. I am very grateful to you, Mr. Chairman, for your introduction of the bill, S. 1108, which contains, I think, many desirable modifications to the proposals of the administration for reforming the student aid programs. I am gratified that S. 1108 retains the inschool interest subsidy under the guaranteed student loan program. I think that the interest subsidy is the backbone of the GSL program, and without it the program would phase itself out, certainly in a few years, and the benefits would be practically nil.

I think that you have stated that you intend to work with all the members of the subcommittee, and I know that to be true, and within the committee's present structure in developing a measure to comply with reconciliation as it will affect student aid.

There is no doubt that Senator Stafford will do just that, and I underscore the fact as I believe he will do so in a fair and equitable manner. That is the way we must work, in a true spirit of give and take. We must fashion the program so that the final effect of the changes we expect to make will have the least detrimental effect on the students and on institutions. I am sure that our chairman is concerned for students and the colleges where the students study, not only in his State of Vermont, but also in the State of West Virginia, also in all the States of the Union.

I pause at this point to say that there are some institutions, Chairman Stafford, that will feel the impact of the changes in student aid programs in greater degree than other institutions.

I do not want to document too much in detail, but I cannot make my point without coming to the institution of which I speak, Salem College. In Salem, we have an independent private college. However, Mr. Chairman, we have no church constituency. Now, you can understand that my comparison is not because of something that Salem College does not have, but let us compare it with West Virginia Wesleyan Methodist College at Buckhannon. Very frankly, the Methodists have a very large number of churches in West Virginia. It may be the predominant religion in our State. But the Methodists are able, and do, support that institution in great degree. The college at which I was privileged to be a faculty member for several years, Davis-Elkins, located in my hometown, also a private independent college, has a large Presbyterian constituency and funds come from the churches consistently.

It is true with Alderson-Broaddus College in Philippi, where the Baptists of our State are a very large religious organization. I mention these three colleges to indicate that they have the same problems as we have at Salem, except they have a greater backup of continuing contributions from members of the church body which, in a sense, makes the college, although students attend there from all faiths or no faiths. I am sure that is true possibly in Vermont and certainly in other States. So we feel the impact of reconciliation cost savings to a very substantial degree. We are concerned about it, and we are holding special meetings within our board of trustees on this subject alone.

I am doubtful that we could continue really, and I do not normally speak in the negative. We will not be able to continue in doing the work we are now doing—shall I say, innovative, creative programs, as well as our bachelor of arts basics, without the type of aid that we are now able to give to students—students who I hope will continue in this country to have the right of choice in the kinds of institutions they attend. I am not against the State supported college or university in West Virginia. But I am saying that we are facing a problem which may be, in some instances, insurmountable at the independent college level through the United States of America. I hope that this will not be a prophecy. I do not want to make it as such. But we are really facing financial problems that we hope we can solve, at least in part, in a way that can help us to bridge the gap that exists between the public and private sector schools.

I know students who have talked and contacted me by telephone who will have difficulty in returning to college next autumn because of the situation that we are discussing. We have also, as I understand it, been instructed to bring back credibility to these programs. And you will not find specific language to that effect in the Senate reconciliation resolution or its instructions to members of this committee. But just as sure as we are here today in this hearing, when, 6 months ago, we would not have dreamed that we would be here for this purpose, the responsibility to bring a needs base back for student aid is here. If we do not bring back this credibility, or proof of need in some realistic manner, and particularly in the loan program, then we may lose programs of student aid, possibly across the board in the years that are ahead.

Although I do not believe the fraud and abuse alleged to exist in student aid programs is as widespread as reported, there is the fact that many members of the Congress and the public and the executive branch do believe the worst rather than the best about the program. And, for that reason, justified in degree perhaps, we must try to modify existing programs in such manner as to reduce opportunity for those funds to be used for any reason whatsoever, but for the intent and purpose of the student guaranteed loan; that is to pay for the cost of students in attending institutions of higher learning.

We want these programs. I do not know how many members of our subcommittee can give close attention to this problem, but I hope they can give attention to these matters because there is involved here the survival of a program that I believe is worthwhile. I believe that now perhaps as never before, these programs

have a reason for existence. Many of the costs of the loan program are beyond our control, tied as they are to the interest rates on Treasury bills—there is not a person in this room who does not have a knowledge of what is happening on interest rates. The families that I meet, as I did this weekend in West Virginia—a young man, young woman recently married—are desirous of purchasing a house. They had seen it, they liked it, but the interest rate for the loan is so high that they have no way under their present situation, as they see it, to purchase the home. But the administration—and I am not a carping critic—says that these interest rates will decline. I do not know whether that is true or not. I have never seen anything go up or down as the interest rates have. Many families are innundated by inflation, submerged by inflation, annihilated by inflation and they have less and less discretionary or spendable income left over to pay for the costs of student education and so must borrow.

We cannot get away from the fact that the borrowing process is involved, but until inflation is reduced—and I do not know how soon that will be—according to the administration, it might be sooner than later. But until the parent loan program is in place and viable—students must have access to these guaranteed loans if their families are in the middle income range and, in some cases, low income range—nearly 400,000 recipients of the Pell grants, which normally go to low income students, also received loans last year.

I will have, Mr. Chairman, with your cooperation the opportunity to question the witnesses and perhaps develop certain other matters. If I were to say this is a serious situation in the educational life of America, I am not sure that would be a strong enough word. I hope that the subcommittee in these coming days and weeks will give close attention to this matter and related problems that face us.

Thank you, Mr. Chairman.

Senator STAFFORD. Thank you very much, Senator Randolph, for a very thoughtful opening statement.

Your description of Salem College is quite similar to the college that I graduated from in Vermont, Vermont Middlebury. It has the same problems.

Senator Pell, we are happy that you are here as ranking member of this committee and most experienced member of all of us on these questions that we are facing.

Do you have an opening statement?

OPENING STATEMENT OF SENATOR PELL

Senator PELL. Thank you very much, Mr. Chairman.

I apologize to the chairman and the witnesses, for I will be going back and forth because we are marking up the foreign aid bill down the corridor. But I did want to comment briefly on the budget reconciliation which requires us to change both the guaranteed student loan program and the Pell grant programs.

The budget reconciliation limits spending in the grants program to $2.46 billion in fiscal year 1982. Thus, we have to adjust the existing program to save $700 million. Unadjusted, the program would cost $3.2 billion.

Now, the only way we can make such savings and to do such things as to raise the assessment rate, count equity in the house, the home, delay implementing provisions of the Education Amendments of 1980, or allow the Secretary to request a waiver of statutory provisions when it is economically impossible to meet those provisions.

As for guaranteed student loans, the budget resolution requires savings of more than half a billion dollars, $566 million in fiscal 1982. The only way this can be accomplished is to make the program needs based, place an income cap on the program, make the students repay the interest subsidy or reduce the special allowances to lenders. These are all pretty brutal choices. As someone who has played, along with Senator Stafford, a role in creating and expanding Federal assistance programs, I hate to see us in the situation where we are now where we are compelled to reduce these programs and to cut them. The witnesses know, I think, this is a great mistake; that the real strength of this Nation is the sum total of the education and the character of our people, and when we start cutting into that, we are damaging our national strength.

We are all familiar with those most recent statistics showing the success of basic education programs and the title I programs. These programs work, and should be supported. Yet we all know that we are faced with hard facts, and what we must do. We must substantively alter both the grant program and the guaranteed student loan program to accomplish the requirements of budget reconciliation. And we have no choice. It is our responsibility to meet these requirements in a workable manner so that the programs in which all of us believe so strongly will continue with their purpose and their integrity intact. Your suggestions will be very helpful in this task to this hearing.

I am hopeful that we can develop the information that will enable us to do our job as best we can. The task before us is not a pleasant one, as any dismantling operation is not a pleasant one, but it is a task that we have to undertake. It is a question of alternatives and here I am reminded, I guess, of the story of my predecessor, Theodore Green. When he was 90, somebody said to him, "Theodore, how does it feel to be 90?" He said, "Better than the alternative."

This is where we are faced with many of these programs. We have disagreeable alternatives and we will do our best.

Senator STAFFORD. Thank you very much, Senator Pell.

Now, Dr. Rivlin, we are again, I say, very happy that you are here. I think Senator Pell's situation is typical of the other members of this subcommittee this morning, that they are all trying to be in three places at once, because they are all interested. And I have talked about this matter with Senator Kennedy last night. We are very happy that you are here and pleased to hear your testimony.

STATEMENT OF DR. ALICE M. RIVLIN, DIRECTOR, CONGRESSIONAL BUDGET OFFICE, ACCOMPANIED BY DAVID LONGANECKER, ANALYST, HUMAN RESOURCES AND COMMUNITY DEVELOPMENT DIVISION; AND DEBORAH KALCEVIC, ANALYST, BUDGET ANALYSIS DIVISION

Dr. RIVLIN. Thank you very much, Mr. Chairman. I am delighted to be here and I would like to introduce my two colleagues who are experts on student aid, David Longanecker, from our Human Resources Division, and Deborah Kalcevic, our analyst from our Budget Analysis Division.

I am pleased to be here today to discuss the administration's, the subcommittee's, and other proposals for reducing Federal spending for student aid in fiscal years 1981 and 1982. It is going to be a difficult process.

Senator Randolph, you used the word "painful." I just want to assure you that the CBO is here to help you in any way that we can.

The 1970's witnessed rapid growth in Federal aid to students. In 1972, the basic educational opportunity grants program (now known as the Pell grant program) was introduced to supplement other programs that ease low-income students' access to college. The guaranteed student loan (GSL) program, established in 1966, addressed somewhat different goals, namely, helping to lighten the financial burden for less needy students, and supplementing the grant aid provided to the most needy students. But until recently, even the GSL program restricted eligibility for these highly subsidized loans to students from families with incomes below a specified level.

In the late 1970's, the Federal focus began to shift. The Middle-Income Student Assistance Act of 1978 (MISAA) and the Higher Education Amendments of 1980 significantly broadened the scope of Federal student assistance. MISAA extended eligibility for GSL's to all students enrolled at least half time, expanded eligibility for Pell grants, and increased funding authorizations for most existing student aid programs. The 1980 amendments raised all grants programs' maximum benefit amounts, eliminated equity in the family home as a determinant of need, and created a loan program for parents.

Federal funding also increased—by more than 250 percent—after adjusting for inflation—from $0.6 billion in 1970 to $4.5 billion in 1980. Nearly all of this increase, however, occurred early in the 1970's. Although eligibility has twice been expanded since 1976, funding for student assistance has not increased in real terms.

Expanded eligibility without increased funding—in real terms—has reduced the Federal commitment to assist the most needy students; at the same time, assistance to less needy students has increased. This dual effect has been particularly evident during the past year. While $130 million was withdrawn from the need-based Pell grant program in fiscal year 1980, the untargeted GSL program, an entitlement program, required nearly $650 million in supplemental funds, because both the demand for loans and interest rates were higher than anticipated. Likewise, while the continuing resolution for fiscal year 1980 increased funding for the GSL

program by 56 percent—$900 million—it cut the need-based national direct student loan (NDSL) program by 35 percent—$100 million.

Without some change in the current programs, Federal student assistance will almost certainly continue to shift away from helping the most needy students. If overall funding were to be limited but the programs not altered otherwise, funding for the needs-based programs would have to be cut, since the GSL program, as an entitlement, must always be fully funded.

Before setting policy for 1982 and beyond, the Congress must resolve some funding issues for 1981. To maintain the level of services assumed in the continuing resolution and to pay for 1980 cost overruns, the Pell grant program would need a supplemental appropriation of $1.5 billion above the $2.2 billion already appropriated for fiscal year 1981. If the full supplement were provided, 2.8 million students would have access to $3.2 billion in fiscal year 1981. More than 70 percent of this amount would go to students from families with incomes below $15,000.

Although the continuing resolution assured full funding for GSL's, the program will cost $2.6 billion in fiscal year 1981, an increase of nearly 65 percent from fiscal year 1980. Of this $2.6 billion, however, $2 billion will pay for obligations on loans made in prior years, and only $0.6 billion will be the result of new loans made in fiscal year 1981. The CBO estimates that 2.9 million students—25 percent more than last year—will borrow a total of $6.5 billion—35 percent more than last year.

To gain control of rising costs for student aid, the administration has proposed changes to both the Pell grant and the GSL programs. In the Pell grant program, the administration proposes a combination of five changes for fiscal year 1981: keeping the maximum grant at the fiscal year 1980 level of $1,750; rescinding the previously approved inflation adjustment in the family living allowance; requiring a $750 self-help contribution from every student; rescinding the liberalized "cost-of-education" definitions included in the Higher Education Amendments of 1980; and eliminating the $10 per grant payment to institutions to cover administrative costs. The CBO estimates that these changes would reduce program costs by $0.7 billion, lowering the needed supplemental appropriation to $0.8 billion. All students but the neediest would receive less under this approach, and about 250,000—or 9 percent—fewer would receive grants.

This subcommittee is examining a different proposal for reducing 1981 Pell grant costs. The subcommittee's plan, as we understand it, would keep the maximum grant at $1,750, and rescind the liberalized cost-of-education definition; both of these features are also part of the administration's plan. The subcommittee's approach would not, however, rescind the inflation adjustment in the family living allowance, require a $750 self-help contribution, or eliminate institutions' administrative allowances. Instead, to achieve approximately the same level of spending reductions as the administration proposes, the subcommittee's plan would make four other changes: allow the Secretary of Education annually to establish the assessment rate used to determine how much a family should be expected to contribute from its discretionary income; count social security and veterans' student benefits as student aid

rather than as family income; rescind the provision of the 1980 amendments that excluded home equity from consideration in determining the expected family contribution; and rescind the 1980 provision that would have ended the distinction between families in which the student is the family head rather than a dependent.

If the subcommittee's plan were adopted and the assessment rate on discretionary income retained, this proposal would have virtually the same effect as the administration's proposal on program costs and participation in fiscal year 1981. Since program costs are highly sensitive to families' expected contributions, the costs and effects would be appreciably different if the Secretary were to change the assessment rate on discretionary income, however. Savings would also be much smaller if social security student benefits were eliminated, as proposed by the administration and adopted by the Senate Finance Committee. Savings would decline in this case for two reasons: there would be fewer social security benefits to count as student aid, more students would become eligible for Pell grants.

The Congress could consider other options to achieve Pell grant program savings. For example, the two-staged reduction procedure contained in the current law, or some variant, could be used. Or, as in the strategy adopted in fiscal year 1980, all awards could be cut by a given dollar amount.

To control GSL costs, the administration proposes by this July to eliminate the in-school interest subsidy on student loans, to limit borrowing to assessed financial need, and to raise the interest rate on parent loans to offset all Federal costs. Because more than 50 percent of annual loan volume occurs from July through September, implementing the changes by July 1 would realize half the future savings associated with a full year of program activity.

The precise reduction in loan volume would depend on the severity of the needs test. The CBO estimates have assumed that the combined effect of eliminating the in-school interest subsidy and limiting eligibility to assessed need would cut borrowing by about half. We also estimate that increasing interest on parent loans to market rates would reduce borrowing by about half.

The administration's proposals could also affect the supply of private loan capital—from banks and thrift institutions. Requiring a needs assessment would add to the program's complexity and diminish leaders' yield per dollar lent, because although the average loan amount would go down, administrative costs for each loan, which are approximately the same, would not. These changes would make the program less attractive to lenders and, as a result, some students—particularly the most needy, who are generally less preferred borrowers—could have difficulty obtaining loans.

This subcommittee has been examining a proposal that, as we understand it, would restrict loans to students whose family incomes are below $25,000 or who have financial need, count social security and veterans' student benefits as financial aid rather than as income, and increase from 9 to 14 percent the interest rates on loans to parents. In total, the CBO estimates that the Subcommittee's plan would reduce student loan volume by nearly 40 percent and would affect primarily students from families with incomes over the proposed cap, particularly those attending lower-cost insti-

tutions. If it were implemented by July 1, it would save $70 million of fiscal year 1981 budget authority, although there would be no outlays savings.

For fiscal year 1982, the administration would continue the Pell grant program changes proposed for 1981. In addition, it would increase the assessment rate on discretionary income and, in determining the family contribution, would eliminate the deduction of State and local income taxes. We estimate these changes would maintain programs costs at about $2.5 billion. Approximately 575,000 fewer students would receive grants than in the 1980-81 academic year.

The subcommittee's Pell grant plan would continue the 1981 program changes for fiscal year 1982. As in 1981, it would have virtually the same effects on costs and on participation as the administration's proposal.

With respect to GSL's, the administration would continue in fiscal year 1982 the reductions proposed for initial implementation in late 1981. Assuming a July 1 effective date, fiscal year 1981 loan volume would be significantly reduced, yielding sizable budgetary savings in fiscal year 1982. Since borrowing in fiscal year 1982 would also be significantly reduced—by 50 percent for both students and parents—the CBO estimates total program savings of $0.8 billion in 1982.

In adopting the reconciliation bill, the Senate implicitly accepted the administration's GSL proposal, but with an October rather than a July implementation date. As a result, the resolution assumes no GSL savings in fiscal year 1981, but a $0.6 billion savings in 1982.

In 1982, the subcommittee's plan would continue the 1981 GSL program changes. If these changes were implemented by this July 1, fiscal year 1982 savings would be $0.5 billion because new loan volume would decline from $7.9 billion to $4.9 billion. Although total program costs would still grow to $2.9 billion, only $0.4 billion of this amount would be due to the new loans provided in fiscal year 1982. If these changes were not implemented until October 1, however, fiscal year 1982 savings would be significantly less—about $0.3 billion.

The Congress could reduce the growth in GSL program costs in various other ways. One option would be to limit special allowance payments to lenders. At present, private lenders receive a special Federal allowance payment that assures them a yield equal to the 91-day Treasury bill rate plus 3.5 percentage points—18⅝ percent on all outstanding loan capital in the last quarter. The actual amount of savings from reducing the special allowance payments would depend on the size of the reduction. Since special allowance payments for new loans represent only a small portion of total GSL cost savings would be modest at first, but they would eventually grow. A disadvantage of this approach is that any significant reduction in the special allowance that was not offset in some other way—say, by allowing lenders to charge higher interest rates—would make the GSL program unprofitable and could discourage lenders from participating.

Another option—a variance of one of the administration's proposals—would eliminate the in-school interest subsidy but would

automatically defer payment of accrued interest until students have left school. If the Federal Government were to pay the interest while students were in school—thus assuring lenders continuous payments from the time the loans were made—initial savings would be small. But as the accrued interest was repaid, savings would grow appreciably. Although this option would minimally increase the administrative complexity of the program, it should be possible to structure the changes in a way that still attracts lenders

In conclusion, Mr. Chairman, the choices available for achieving significant reductions in spending for student aid are quite limited, and the time constraints on enacting new legislation—especially any that is to become effective this July—are severe. The subcommittee is therefore confined to a few difficult choices and a rigorous schedule. The CBO will try to assist you in any way we can during the course of your deliberations.

Thank you, Mr. Chairman.

Senator STAFFORD. Thank you very much, Dr. Rivlin, for your very helpful statement.

I will state to my colleagues on the committee we will use the 10-minute rule in asking questions. I am told there may be a vote at 11 o'clock. If that is so, we will have to recess the committee to go over and vote.

Your testimony includes the option of deferring and accruing interest on GSL while a student is in school to be repaid with principal when the student graduates.

Practically, would not the special allowance be paid on the capitalized amount of the loan while the student is in school, thus diminishing a cost savings to the Federal Government as opposed to savings achieved by requiring the student to pay interest while in school? Could you tell us how much that would be?

Dr. RIVLIN. Let me pass that estimate to Dr. Longanecker.

Senator STAFFORD. Let me say on any question that we ask you, if you prefer to give us a response in writing, it may be done that way.

Mr. LONGANECKER. Let me give a brief capsule and, for the record, I will prepare something more expansive.

Senator STAFFORD. Could you pull the microphone up a little bit closer?

Mr. LONGANECKER. Thank you.

To a great extent, the cost savings and the effect on the demand for loans would depend on how you structured any accrued provision. The administration, for example, has proposed that students with the consent of lenders could now essentially give less; however, the banks are able to compound and cap that interest to the principal. That does not turn out to be a very attractive option for the lender.

The specific option that we were discussing, offering here, is one that would essentially not change the yield to the lender at all but just have the Federal Government pay that interest while the student was in school. They would not necessarily be capitalized, at least in a compounding way, although, in effect, I think if I understand your question, that is correct. It is clearly increasing the level of debt that the student would ultimately have to attain.

Senator STAFFORD. Dr. Rivlin, one of the critical elements in any of the alternatives that we are considering for modifying the GSL program is the establishment of a viable parental loan program which few lenders have yet undertaken.

Can you give us your views on how we might encourage the startup of this program authorized by last year's amendments to the Higher Education Act, and whether you believe it can, in the short term, help to offset changes in the student loan program?

Could you also tell us if we were to enact a needs analysis provision of S. 1108, for the GSL program, how much it would cost to open up the parent program to independent students and their spouses?

Dr. RIVLIN. I think that is another question that we might want to amplify for the record, but let me see what Dr. Longanecker would like to say about it right here.

Mr. LONGANECKER. Yes, in terms of estimating the effects, if one opens it up to independent students, we could certainly do an estimate on that.

As to how to make the program more attractive, it involves making it attractive both to the potential borrowers and to the lenders. And actually I suspect the lending institutions which will be here to discuss the student aid programs this afternoon may be in a better position to answer that question than we would be.

Senator STAFFORD. We will expect an expanded answer on these first two questions at your very earliest convenience, if you could, please.

I am especially concerned that by imposing needs analysis, such as that in S. 1108, for eligibility for GSL, that we do not inadvertently preclude students from farm families with farm assets over $50,000 from borrowing under the program, as many farm families may be wealthy on paper but not in reality.

Could you inform us of what the additional cost might be to waive for GSL the provision that excludes only the first $50,000 in farm assets in determining the family's expected contribution?

Dr. RIVLIN. Clearly there is a problem with respect to farm assets.

We do not have an exact estimate of what waiving the farm provision would do. Let me pass that one also to Dr. Longanecker.

Senator RANDOLPH. What is your name?

Mr. LONGANECKER. Dave Longanecker.

Yes, there clearly are a number of families, farm families that are excluded because of the value of their farm. I have heard it said that a 35-acre farm essentially disqualifies a family from assistance. There are a number of factors that come into play here.

Many families, they have a farm that is valued considerably in excess of $50,000, but their own equity in that farm may not be $50,000 because they have leveraged some of that farm debt value by purchasing equipment or they simply may be working off a mortgage and not have that much into the farm themselves, so there are many factors that would come into account here.

In respect to the eligibility for the guaranteed student loan program, if you had a $25,000 income cap, most farm families earn less than $25,000, at least currently, in our economy. And they would still be eligible even though they had expensive assets, as I

understand the provision of your bill. Pell grants, on the other hand, clearly, many of the students are affected by that asset limit on farms.

So within the farm community, farm families, a large proportion of them may benefit from this; the overall cost effects cannot be appreciable because only a small portion of our applicants live on farms.

Senator STAFFORD. Thank you.

One of the options proposed in GSL is to allow all students to borrow up to their remaining needs to $2,500 for an undergraduate, and $5,000 to a graduate student, with a floor loan of $1,000. If students demonstrated need below that amount, that is to a thousand, this might alleviate the situation you have described in which lenders are reluctant to make loans below $1,000.

Could you give us your assessment as this is a possible option and, if available, a cost estimate assuming the rentention of the in-school interest subsidy?

Dr. RIVLIN. That is a hard estimate to make, although we will make an effort, I think. It is probably a more refined estimate than our methodology allows us to make with greater conviction, although we will attempt to do so. Limiting or excluding those who borrow less than $1,000 would certainly reduce eligibility, although it is probable that a lot of those students do not borrow now because the lenders do not find it particularly profitable to make a small loan.

Senator STAFFORD. Thank you very much.

Senator Pell?

Senator PELL. Thank you very much, Mr. Chairman.

I was struck in your testimony where you stated that funding for student assistance programs has not increased in real terms in the last half decade, in the last 5 years. Yet, we are constantly confronted by the Budget Committees of both Houses, with statements that the student aid programs are always increasing. I guess what we are talking about here are the differences between real increase and actual paper increase. In other words, inflation. Has there been lowering of the real percentage or the amount of help that is being given to students than existed in 1976?

Dr. RIVLIN. That is right.

The dollar amounts have increased rapidly, but when discounted for inflation, the real amounts have not increased since about 1976, although they did increase rapidly during the first part of the decade.

Senator PELL. Would not it also be a statement of fact that the tuition increases in the colleges and universities on the average have gone up at a rate considerably higher than inflation?

Dr. RIVLIN. I am not sure that is true.

Let me turn to my colleagues on that.

I think over a long period they have gone up about—at the rate of inflation.

Senator PELL. I am thinking of the last 5 years.

Mr. LONGANECKER. We will certainly provide that. It is my recollection, however, that out of the last 5 years, about the first 3 years of those, the cost rise in higher education was below the inflation

index and that the last 2 years they have been higher but we will be glad to check that.

Senator PELL. Maybe you could submit that for the record, because I have heard the statements made, and maybe it is an incorrect statement; but I would like to know whether the average cost of tuition increase has gone up at a rate higher than the rate of inflation.

Senator PELL. Dr. Rivlin, you stated in your testimony also savings in student assistance costs would be smaller if the administration's proposal to eliminate student social security benefits is adopted. Thus if you take the converse of that, are you saying that the cost to the student assistance programs would increase if we adopt the administration's proposal?

Dr. RIVLIN. Certainly, not on balance, not in total, but certainly the number of students eligible for Pell grants would increase if the social security grants were reduced. The administration has taken account of that in their estimates of this proposal, or has tried to.

Senator PELL. Thank you.

Senator STAFFORD. Thank you very much, Dr. Rivlin.

Thank you very much, Senator Pell.

Dr. Rivlin, we understand that it is necessary for you to leave and the subcommittee will certainly want you to go and carryout whatever duties you may have. But we would appreciate it if Dr. Longanecker and Ms. Kalcevic could stand by in the event we need help from them, with the panels that are going to follow.

Would that be possible?

Dr. RIVLIN. Yes; I will leave behind my able representatives here.

Senator PELL. I also would like to submit a question in writing.

Senator STAFFORD. The Chair will reserve the right of all members, without objection, to submit questions in writing for early answers so that those members who were not here and may have important questions can get them answered; is that agreeable?

Dr. RIVLIN. That is fine.

[The following was received for the record:].

CONGRESS OF THE UNITED STATES

CONGRESSIONAL BUDGET OFFICE

MAY 29 1981

The Honorable Robert T. Stafford
Chairman
Subcommittee on Education, Arts and Humanities
Committee on Labor and Human Resources
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

It was a pleasure to testify before your Committee on May 11. Enclosed are the responses to questions that you and other Members of your Committee raised at the hearings.

If we can be of further help to you, please let me know.

With best wishes,

Sincerely,

/s/ ALICE M. RIVLIN

Alice M. Rivlin
Director

Enclosure

HRCD:Longanecker:jb(5-26-81)

Correspondence Control No. 3104

FILE COPY

OFFICE	SURNAME	DATE	OFFICE	SURNAME	DATE	OFFICE	SURNAME	DATE
HRCD	Longanecker	5/29						
HRCD	Gordon	5/29						
OIGR	Greiss	5/29/81						

RESPONSES TO QUESTIONS RAISED AT THE MAY 11, 1981 HEARING
BEFORE THE
SUBCOMMITTEE ON EDUCATION, ARTS AND HUMANITIES
COMMITTEE ON LABOR AND HUMAN RESOURCES

Responses to Chairman Stafford's Questions

Q. Your testimony includes the option of deferring and accruing interest on GSLs while a student is in school, to be repaid with principal when the student graduates. Practically, wouldn't the special allowance be paid on the capitalized amount of the loan while the student is in school, thus diminishing the cost savings to the federal government, as opposed to savings achieved by requiring the student to pay interest while in school? Could you tell us how much that would be?

Under most ways of implementing a proposal that would allow students to defer and accrue interest on GSLs while in school, the savings achieved from eliminating the in-school interest subsidy would be partially offset by other costs, such as increased special allowance payments resulting from larger debt levels and depreciated values of future repayment streams. The long-term savings of approximately 25 cents per dollar loaned (discounted to 1982 dollars) resulting from elimination of the in-school interest subsidy would be offset by increased costs of approximately 5 to 7 cents per dollar loaned.

If accruing and deferring were a private agreement between the borrower and lender, as proposed by the Administration, the increase in special allowance payments would depend on whether the federal government were to pay the special allowance on only the original principal amount borrowed, or on both the principal and accrued interest. If special allowance payments were made only on the amount of outstanding loan principal, federal costs per dollar loaned would not increase but volume probably would, thus increasing special allowance payments. It is unlikely, however, that lenders would willingly agree to these provisions since doing so

would reduce lenders' long-term yield on these loans. If students were unable to negotiate agreements with lenders to defer and accrue interest payments, many students would need to borrow enough more to pay their annual interest charges. For students whose borrowing was not constrained by the maximum borrowing amounts, the amount borrowed could be expected to increase by 9 percent. The corresponding increase in special allowance payments would partially offset savings from eliminating in-school interest subsidies.

On the other hand, if special allowance payments were paid on both the original loan principal and the accrued interest, lenders would be assured of a long term yield comparable to what they currently receive, so they would be more likely to make private agreements with students to accrue and defer interest. Even under these conditions, however, lenders would have reduced current cash flows, so many of them might still refuse to negotiate agreements to defer and accrue interest. If lenders were to refuse to allow students to defer and accrue interest, many of them would need to borrow an additional amount to pay their annual interest costs--presuming they were not already borrowing the maximum amount allowed. Again, overall loan volume would increase, as would the requisite special allowance payments.

Under another option--which was discussed in our testimony--loans would accrue interest from the time they were originated, but these interest charges would automatically be deferred until the student left school. To ensure that the supply of loans would not be disrupted due to

reduced returns for lenders, the federal government would continue to pay the interest amounts while the students were in school, but would recoup these costs when the loans entered repayment. While this option would not achieve large savings until the deferred interest payments were repaid, future savings would be significant. Even if the federal government were paid back the full amount of deferred interest at the time that the loan entered repayment, however, a cost to the federal government--over and above the special allowance payment--would remain if the federal cost of borrowing to pay the interest subsidy exceeded the amount of interest earned on the loans.

Q. I am especially concerned that, by imposing needs analysis such as that in S. 1108 for eligibility for GSLs, that we do not inadvertently preclude students from farm families with farm assets over $50,000 from borrowing under the program, as many farm families may be wealthy on paper but not in reality. Could you inform us of what the additional cost might be to waive, for GSLs, the provision that excludes only the first $50,000 in farm assets in determining the family's expected contribution?

Eliminating any expected family contribution from the asset worth of family farms would increase the proportion of farm children attending college who would be eligible for GSLs. The aggregate impact on program costs, however, would be minimal because only a small portion of students come from farm families, and only a portion of these students would be affected by a $50,000 cap on the farm asset exclusion.

Not all children from families whose farms are worth more than $50,000 would be ineligible for GSLs. Equity in the farm, not the full value of the property, would be used to determine the expected family contribution. Although farms may be valued at much more than $50,000, families' equity in the farm may be less if the families have large mortgages on their property or equipment.

Under the Subcommittee's proposal, the asset exclusion would not affect GSL borrowing by most farm children because their families generally have less than $25,000 in adjusted gross income; therefore, the children would be eligible for loans regardless of the value of the farms. On the other hand, the $50,000 asset exclusion would limit GSL eligibility for students from farm families if the Administration's needs-based GSL proposal were adopted.

Q. One of the critical elements in any of the alternatives we are considering for modifying the GSL program is the establishment of a viable parental loan program, which few lenders have yet undertaken. Can you give us your views on how we might encourage the start-up of this program, authorized by last year's amendments to the Higher Education Act, and whether you believe it can, in the short term, help to offset changes in the student loan program? Could you also tell us, if we were to enact the needs analysis provisions of S. 1108 for the GSL program, how much more it would cost to open up the parent program to independent students and their families?

As I mentioned at the hearing, the CBO is not particularly expert in how to make the parent loan program work or in assessing whether it is likely to be a viable alternative to the student loan program. I would

recommend working with lenders, state guarantee agencies, and the Education Department to determine if and how this program can be designed to best accomplish its objectives.

We do know at this point that implementation of the parent loan program has been sluggish and that many lenders have expressed reluctance to participate in it. As a result, we anticipate relatively low levels of parental borrowing in fiscal years 1981 and 1982.

We estimate that extending eligibility for parent loans to independent students would increase borrowing by approximately $200 million, which would increase program costs by $2 million in fiscal year 1982. Virtually all of the increased demand would come from students who would already be borrowing the maximum allowed amount in the student loan program, but who would like to borrow more. Few independent students would be expected to borrow only in the parent loan program, because the terms of parent loans are so much less attractive than the terms of student loans. We estimate that 20 percent of undergraduate borrowers and 50 percent of graduate borrowers are independent students, and that 10 percent of these students would also borrow in the parent loan program.

Q. One of the options proposed in GSL is to allow all students to borrow up to their remaining need, to $2,500 for an undergraduate and $5,000 to a graduate student, with a "floor" loan of $1,000, if students demonstrated need below that amount. This might alleviate the situation you have described in which lenders are reluctant to make loans below $1,000. Can you give us your assessment of this as a possible option, and if available, a cost estimate, assuming the retention of the in-school interest subsidy?

We estimate that limiting borrowing to remaining need would reduce loan volume by 50 percent and the number of borrowers by 40 percent. If all students were allowed to borrow up to $1,000, regardless of need, many additional students would apply for loans. If lenders were willing to provide loans of $1,000, we estimate that as many as 1.4 million additional students would want to borrow, thus increasing loan volume by $1.4 billion. But lenders are not likely to make $1,000 loans readily available because their yield is relatively small on loans of this size. If banks were willing to provide $1,000 loans for half of the 1.4 million students, loan volume would increase by $0.7 billion, which would increase fiscal year 1982 program costs by approximately $60 million.

Responses to Senator Pell's Questions

Q. How have college costs grown over the past five years, relative to the cost of living?

Over the past five years, average college costs have not increased as rapidly as the cost of living, as measured by either the Consumer Price Index (CPI) or the Personal Consumption Expenditures (PCE) deflator (see Table 1). This result is consistent with findings reported in previous CBO papers that indicate that the burden of college costs on the average student has not increased appreciably over the past decade.

TABLE 1. INCREASES IN TUITION COSTS, THE CONSUMER PRICE INDEX (CPI), AND THE PERSONAL CONSUMPTION EXPENDITURES (PCE) DEFLATOR: 1976-1980 (In dollars)

	Average Tuition Costs		CPI		PCE Deflator	
	Amount	Percent Annual Change	Amount	Percent Annual Change	Amount	Percent Annual Change
1976	1,150	---	170.5	---	1,084	---
1977	1,238	7.7	181.5	6.5	1,206	11.2
1978	1,319	6.5	195.4	7.7	1,349	11.9
1979	1,422	7.8	217.4	11.4	1,511	12.0
1980	1,551	9.1	246.5	13.4	1,670	10.5
Change from 1976 to 1980	401	34.9	76.0	44.6	586	54.0

SOURCES: National Center for Education Statistics and Economic Report of the President.

Average tuition charges, however, do not necessarily accurately reflect the cost increases within specific sectors of higher education. To some extent the increase in average costs has been held down because a higher proportion of students are attending less expensive institutions, particularly two-year public community colleges. At many types of institutions, tuition and fees have increased more rapidly than either the Consumer Price Index or family incomes,[1] although these increases have not grown as rapidly as personal consumption expenditures. Cost increases have varied appreciably within both the private and public sectors. For example, from 1967 through 1977 among five groups of institutions, costs

1. See, Carol Frances Van Alstyne, Is There or Isn't There a Middle-Income Crunch? (American Council on Education, 1979).

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rose proportionally most rapidly for the Ivy League and the Seven Sisters schools and less rapidly for public institutions in the Pacific Eight, Big Ten, and Southeastern Conferences.[2]

Q. If I am not mistaken, the Administration and the Congressional Budget Office use different economic assumptions in estimating the costs of programs such as Guaranteed Student Loans. If we used the Administration's economic assumptions for Treasury bill and interest rates, and if we did not alter the Guaranteed Student Loan program at all, what would be the cost of this program in fiscal years 1982, 1983, and 1984?

All of the estimates provided in the testimony are based on Senate Budget Committee (SBC) economic assumptions. The table below provides estimates of what the current GSL program, if not changed, would cost in fiscal years 1982 through 1984 under both the SBC economic assumptions and the Administration's economic assumptions.

COSTS OF THE CURRENT GSL PROGRAM UNDER DIFFERENT ECONOMIC ASSUMPTIONS

		1982	1983	1984
SBC Economic Assumptions	BA	3,439	4,118	4,568
	O	3,247	3,955	4,470
Administration's Economic Assumptions	BA	2,799	3,204	3,668
	O	2,725	3,106	3,555

2. Unpublished data from Susan Nelson, The Brookings Institution, 1978.

Q. In your testimony, you discuss the possibility of capping the special allowance that is paid to lenders. In your analysis of where interest rates and the cost of money may be going in the next few years, do you have a suggestion as to what a reasonable cap might be.

In our testimony we discussed the possibility of limiting special allowance payments to lenders. Two ways in which they could be limited are:

- o Impose a maximum cap on special allowance rates, or
- o Revise the special allowance formula to reduce lenders' yield.

Limiting special allowance payments by imposing a maximum cap on the special allowance rates used to determine payments to lenders could reduce program costs, but its inflexibility to changing money market conditions also would seriously jeopardize the availability of loans to eligible students. Any cap, once in effect, would make GSLs less attractive to lenders in comparison to other loans and investment opportunities for which yields were not constrained. As a result, lenders would likely shift at least a portion of their current student loan capital into other banking activities. For example, imposing the same cap on special allowance rates that existed prior to the fourth quarter of fiscal year 1979 (a 5 percent cap on 7 percent loans and a 3 percent cap on 9 percent loans) would reduce lenders' fiscal year 1982 yield on GSLs from 16.5 percent to 12 percent. A reduction of this magnitude would achieve significant cost savings--approximately $100 million in fiscal year 1982 on new loan volume alone, even if the amount borrowed did not decline, and much greater savings if borrowing were reduced. It is likely that borrowing would decline appreciably, because few lenders would be likely to continue participating actively in the GSL program if their yields were reduced by this amount.

An alternative way of controlling special allowance costs would be to change the formula for determining lenders' overall yield on GSLs. Currently lenders are assured a yield that varies with the 91-day Treasury bill rates and is equal to the bond equivalency rate of these Treasury bills plus 3.5 percentage points. It may be possible to reduce this yield somewhat and still assure lenders a yield adequate to keep them actively participating in the program. Some evidence suggests that the special allowance rate could be reduced by 0.5 to 1.0 percentage points without eliminating lenders' margin for profit in the program. The cost savings associated with such a change would depend greatly upon whether the revised special allowance applied only to new loans or to all outstanding loan volume. If applied only to new loan volume, a 0.5 percentage point (50 basis points) reduction in the special allowance rate would reduce fiscal year 1982 costs by only $20 million. On the other hand, if applied to payments on all outstanding loan volume, reducing the special allowance rate by 0.5 percentage points would reduce fiscal year 1982 payments approximately $100 million. If lenders restricted the supply of loans because their yields were reduced, costs would decline even more.

Response to Senator Randolph's Question

Q. What would be the effect of adjusting the family size offset allowance in fiscal year 1982 to account fully for inflation between 1980 and 1982?

The CBO estimates that under S. 1108 the Pell Grant program would cost $2.5 billion in fiscal year 1982. This estimate assumes that the family size offset (f.s.o.) allowance would continue to be fully adjusted in future years to account for inflation. If, on the other hand, the Administration's proposal were adopted, and the f.s.o. were increased between fiscal year 1980 and 1982 by only enough to offset inflation from 1981 to 1982, benefits (and program costs) would be reduced by an additional $166 million.

Senator STAFFORD. Thank you very much.

The committee would now invite the first of our two panels to take the witness chair—witness table, we should say——

[Pause.]

Senator STAFFORD. Dr. Rivlin, could you wait just a minute? I understand Senator Randolph, who had to leave the room, may have a question or two after all. So we will withhold a minute.

[Pause.]

Senator STAFFORD. Dr. Rivlin, we see the Senate has started a vote.

Would it be possible for you to remain long enough for Senator Randolph, after we return?

Then, ladies and gentlemen, we are going to recess the committee simply long enough for Senator Pell and myself to get over and vote and come back, which I would estimate will take about 15 minutes.

[Recess.]

Senator STAFFORD. The committee will please come to order.

In order for participants to anticipate what the committee may do, since between rollcalls and other things, we are going to find our hearings are overrunning the time we have allotted, it will be the Chair's intention to call the second panel first, after Dr. Rivlin, since the second panel is made up of people who are out of this area and the first panel is not. It is also the Chair's intention to run through until we have finished, if we can do it by 1 o'clock, rather than break for lunch earlier. I hope that will be agreeable to those who are here.

Having said that, Senator Randolph, Dr. Rivlin has remained and is available to answer questions for you.

Senator RANDOLPH. Thank you very much, Mr. Chairman.

Dr. Rivlin, I am now passing a pleasantry; I think you are one of the most knowledgeable and capable individuals that I have met in Government, and that would mean that you are always on an even keel as to subject matters; your position within the organization,

within Government, has given you an opportunity to help many members of the Congress better to understand our problems.

If budget cuts in the loan program are made, as recommended in the budget, how many students do you estimate—and it could only be an estimate—would be forced to leave this program nationwide?

Dr. RIVLIN. We dealt with this to a limited degree in the testimony, Senator Randolph.

For 1981, if I can find the rest of it—let me turn to Dr. Longanecker. I guess we do not have the 1981 number in there.

Mr. LONGANECKER. We estimate the reduction will be about 50 percent of the number of borrowers; actually, it turns out to be about 40 percent of the borrowers; 50 percent in eligibility. 40 percent brings it down to $3.35 million to $2,200,000; it is a reduction of about 1.4 million students in borrowing in 1981.

In 1981, it is a 50 percent reduction, although it is not quite as large because you are only dealing with the borrowing of the final quota of the year.

Senator RANDOLPH. You are speaking now of the guaranteed student loan when you made this comment?

Mr. LONGANECKER. That is correct.

Senator RANDOLPH. Is that right?

Mr. LONGANECKER. Yes.

Was that responsive to your question?

Senator RANDOLPH. In part, yes.

I want to continue it.

What is your feeling about that reduction?

Dr. RIVLIN. Well, it is not my job to have feelings about reductions. It will certainly—it will disappoint many students; it would presumably be concentrated in those who need it least and have other sources of funds, but it will make it difficult for many students to finance their education.

Senator RANDOLPH. What about the college I spoke of as an illustration?

Dr. RIVLIN. I am not familiar with the exact situation at Salem College, Senator Randolph, but certainly for small, private institutions that have a large proportion of their student bodies on student aid and I suspect this is one, it will mean very difficult readjustment.

Senator RANDOLPH. I pointed out one source of giving which is not available to us. You understood that?

Dr. RIVLIN. Right.

Senator RANDOLPH. And that comes with the smaller college, usually, the independent private college, because added to no State aid, there is this additional lack of aid which can come from any so-called body of church membership represented in the college that I speak of, my own, so you realize that you are compounding—not you, but there is the compounding of this problem as it affects certain institutions of learning in the country that have no State aid and have no body of a church constituency, as we would call it, to help with the giving process; and so it is an accentuated problem that faces many independent institutions of higher learning in our country.

I know of many, many cases, but I am thinking of one, with which I am most familiar, where I am personally involved—gradu-

ated after being a student; and where I have been a member of the board of trustees for more than 50 years, although I am not at the present time.

But we are in a place where we are frightened by the possibility, Dr. Rivlin, of college closings; of closing institutions which are very productive in their work and where young men and women need the opportunity to continue their studies in the college of their choice. These matters are deeply felt by many of us; we have just had an amendment voted in the Senate; I would be interested in knowing if a member of the staff would check the vote for me, the Moynihan amendment, in which he attempts to remove certain moneys from mass transit and to place those moneys back in the program of student loans; so there will be continuing effort, even being made at this time, in reference to the budget votes in the Senate, that is indicative of the seriousness of the financial situation for which we are attempting to find an answer so as not to decimate the student aid section of the Higher Education Act.

What is your estimate on the cost of indexing the family subsistence allowance for fiscal year 1982; that would be the academic year of 1982-83, for the Pell grants?

Dr. RIVLIN. Let me ask my colleagues if they have an estimate of that. If not, we will supply it for the record.

We have attempted to break down the various pieces of the changes, and, David, do we have it?

Mr. LONGANECKER. This is in 1981 or 1982, sir?

Senator RANDOLPH. 1982. That would be an academic year of 1982-83, of course. For the fall of fiscal 1982.

Mr. LONGANECKER. Roughly, it looks like about $100 million, sir. I would be glad to refine that estimate when we get a chance.

Senator RANDOLPH. What is the total now?

Mr. LONGANECKER. What is—excuse me?

Senator RANDOLPH. What is the total of the Pell grant costs?

Mr. LONGANECKER. OK.

In that year, it depends on which option you are starting from as a base.

Senator RANDOLPH. I am not starting from any option.

Go back to when it was in effect.

Mr. LONGANECKER. OK.

The program is currently estimated to cost about $2.5 million—billion, excuse me—$2.5 billion to $2.7 billion. The program around that would be about $2.3 billion, the program 1108 would cost about $2.5 billion.

Senator RANDOLPH. Dr. Rivlin, do you and your colleagues believe that loan eligibility should be based on the remaining need only without a family income cap and, if so, why?

Dr. RIVLIN. The CBO does not make recommendations about policy matters before the Congress; that I cannot answer directly. Fortunately for us, it is up to you to make these difficult decisions. It is not our job.

Clearly, if the Congress wants to use funds available to aid the most needy students, then this is one way to do that, is to limit the eligibility for GSL's in some way, to make it a need-based program, again, as originally it did have an income limit on it.

Senator RANDOLPH. So there would be savings achieved?

Dr. RIVLIN. There would be savings achieved by doing this and it would tend to target the Government's subsidies on the needier students, those who have least access to other kinds of funds.

Senator RANDOLPH. Thank you, Dr. Rivlin and your associates. We will be talking to other witnesses, Mr. Chairman.

Senator STAFFORD. Thank you very much, Dr. Rivlin. If you could leave your two associates behind, it would be very helpful to us and we are very grateful to you and all three of you for being with us this morning.

Dr. RIVLIN. Thank you, Mr. Chairman.

Senator RANDOLPH. I would like to inquire, what was the vote that I requested?

Senator STAFFORD. The vote that you are questioning was for Moynihan 30; opposed, 55. So the Moynihan amendment lost.

Senator RANDOLPH. Yes, which I expected it to do.

I supported it.

Senator STAFFORD. It put you and I in a rather difficult position, since it was taking $200 million away from the committee over which we have shared joint responsibility to make part of it available to this subcommittee.

The Chair would ask the second panel—since that appeared to be agreeable and nobody objected, if they would take the witness table, Mr. Douglas R. Seipelt, president, Colorado guaranteed student loan program, Denver, Colo.; Mr. John Barrett, assistant vice president for student loans, Chemical Bank, New York, N.Y.; Mr. Robert Spiller, president, Boston Five Cent Savings Bank, Boston, Mass.; and Dr. Gordon K. Davies, director, State council of higher education, Commonwealth of Virginia, Richmond, Va.

Gentlemen, do you have a speaking order in which you prefer to go?

STATEMENTS OF DOUGLAS R. SEIPELT, PRESIDENT, COLORADO GUARANTEED STUDENT LOAN PROGRAM, DENVER, COLO.; JOHN BARRETT, ASSISTANT VICE PRESIDENT FOR STUDENT LOANS, CHEMICAL BANK, NEW YORK, N.Y.; ROBERT SPILLER, PRESIDENT, BOSTON FIVE CENT SAVINGS BANK, BOSTON, MASS.; AND DR. GORDON K. DAVIES, DIRECTOR, STATE COUNCIL OF HIGHER EDUCATION, COMMONWEALTH OF VIRGINIA, RICHMOND, VA., A PANEL

Mr. SEIPELT. I believe, Mr. Chairman, I will be leading off for my distinguished colleagues.

Senator STAFFORD. All right.

Before you start, and in view of the fact that we have to finish by 1 o'clock, the committee would ask you to observe that stop-and-go system we have there. It is not really very satisfactory but it gives you four minutes to the yellow light and 1 minute to that, and your full statements will be placed in the record, if that is agreeable.

Mr. SEIPELT. I am Douglas R. Seipelt, president of the National Council of Higher Education loan programs and director of the Colorado guaranteed student loan program. The National Council draws its membership from the 46 State-guaranteed and direct-lending agencies, from major commercial lenders participating in the guaranteed student loan program, from principal members of

the revenue-financing and loan-servicing communities, and a number of other associated groups.

The council and I appreciate the chance to share with you our thoughts concerning potential changes in the guaranteed student loan program which could result from the Federal fiscal year 1982 budget process.

As you know, the guaranteed student loan program is a classic example of Federal expenditure leveraging large amounts of private capital for social purposes. This Federal expenditure for fiscal year 1981 new loans was approximately $500 million and leveraged over $5 billion in new private capital from the commercial lending community.

The GSL came into being from the Federal perspective in 1965 with the passage of the Higher Education Act. Even then, 16 years ago, it was conceived as a program to support the credit financing needs of middle-class America in meeting the total costs associated with higher education. Today, that concept has not changed and in reviewing our overall economy I can safely say we now need it worse than ever.

In the early 1970's, access to higher education became a national goal so much so that in 1976 Congress passed legislation to help States establish guarantee agencies to insure adequate private capital for financing higher education costs. Again in 1978, Congress moved to expand eligibility through the Middle Income Student Assistance Act by deleting any reference to family income as a prerequisite to loan eligibility. As you may remember, until 1978, we always determined eligibility for in-school interest subsidy via an income cap limitation, for example, $15,000 in the early days and $25,000 from 1976 until MISAA.

Today, through congressional legislation, State agency hard work and lender acceptance, we have a mature student loan program which provides access to higher education nationwide through reasonably priced credit for students. This along with many years of double-digit inflation, which has eroded parental and student discretionary income, escalating educational costs, and a national social goal of open access, has created a situation where the American educational economy relies in large part on the availability of guaranteed student loans.

But at the same time the overall costs of open access through low-cost credit is taking a larger and larger share of the Federal education budget. I would like to point out though that in our opinion this cost over the last 2 years has not blossomed because of fraud and abuse, but is due to the establishment of 22 new State agencies, mandated in the 1976 congressional amendments, and more importantly to extremely high national interest rates. The interest rate escalation is unparalleled in our recent history, and has pushed the Federal costs associated with the guaranteed loan program to exorbitant levels.

We recognize, pursuant to our national fiscal goals, that the number of students who can borrow under this program just be limited to control Federal costs.

In this regard, I understand there are two bills which would reduce the number of eligible students who can participate in the

program: Senate bill 1109, which is the administration's bill, and Senate bill 1108, which is your proposal, Mr. Chairman.

I would like to very shortly discuss Senate bill 1109 in terms of the National Council's position.

We cannot stand by in terms of delivering the program in relationship to proposals that are in Senate bill 1109 concerning the way the program would be administered. The program in 1109 is generated to change the program in two main ways: No. 1, eliminating in-school interest subsidy and, two, reducing the amount of the loan to something called remaining need.

Removing in-school interest subsidy has two effects:

The first is that it makes the credit very costly to the student. For example, a student who borrows $8,000 over 4 years will accrue $2,269 in interest before he begins repayment and will repay $15,610 for the $8,000 he borrowed. Many potential students may decide this amount of indebtedness is not cost effective. In addition, delinquency and default problems will increase as the student debt grows. We believe that is truly a very costly program to students.

The administration's proposal for recovering the in-school interest includes accruing, capitalizing, or billing the interest. This would present lenders with major administrative problems. Many lenders, which we utilize today, would not participate under these new operational criteria. We are gravely concerned that if these changes are required, the availability of credit financing of higher education may collapse entirely. "Remaining need" is another issue which will have the effect of shutting out middle-class students from credit availability. Remaining need is calculated by subtracting from the cost of education, the expected family contribution, and other student aid to approve at a cost figure not covered through all sources.

It is fallacy to assume that in today's economy a four-member family with $22,000 in income will have cash resources each September 1, for each of the next 4 years, to fund a $2,000 need analysis expected contribution toward the cost of education. The credit advanced through GSL has always been the mechanism which for many families cover the expected amount not available through savings or current earnings.

Need analysis assumes, and I underline "assumes," that families have cash in savings or checking accounts to fund computerized need analysis assessments. I believe that without credit for most of middle America, those funds are not there.

I have dwelled to long on the administration's proposal, but it must be clearly understood the National Council of Higher Education loan programs feels very strongly that Senate bill 1109 will hurt middle-class America very badly and will create a new needy class. That class is those families whose needs analysis says cash is there when in reality it is not.

We applaud your efforts to reduce the GSL program in a more equitable manner by reducing the eligible population, but keeping the program available for the truly needy middle class who need credit financing for higher education.

The National Council advocates an income ceiling of $35,000 with eligibility for students with family incomes over that figure based on a need analysis.

We have consistently fought any recommendation of needs analysis for all students because of the lack of sensitivity toward expected versus real family contribution at the low to middle income levels. In the twenty to mid-thirty thousand dollar income range, we cannot equate expected parental contributions to actual cash. It is our contention that families over the $35,000 income level may not have the parental contribution available in cash, but are in a much better position to secure more expensive credit financing outside the GSL environment.

We feel, though, that a $25,000 adjusted income is too low given all the aforementioned problems of inflation and costs, however, we support the concept of limiting program eligibility through an income level.

We support Senate bill 1108's position on social security, VA and the independent student reductions. It is much easier to count the aid resources and limit levels of indebtedness than to exclude students from borrowing at all.

The Council has two other positions which you might wish to examine:

First, eliminate all deferments except the in-school and unemployment deferment, and;

Second, eliminate the newly enacted 6-month grace period after deferments.

Our calculations show a potential saving of $31 million for fiscal year 1982 in these two areas which could be used to increase the level of the income ceiling.

There is one problem concerning implementation dates which I would like to share with you. Senate bill 1108 carries a July 1 implementation date, which we feel could bring the current GSL processing to an abrupt halt. We are now processing loans for the fall and any changes which might retroactively effect loan Guarantees would drive lenders from the program and delay disbursements.

Whatever changes are enacted by Congress will require adequate leadtime for implementation or many students will fall short of their financing plan this fall. We implore you to look at an effective date which would more closely resemble the manner in which you implemented the 1980 Education Amendments; such as loans which are for periods of enrollment which begin on or after October 1, 1981.

We know you share our concern for the importance of the credit financing mechanism for higher education in the form of the guaranteed student loan program. Lack of credit to students, higher education institutions and their communities could have detrimental long term effects on the goals of our citizens and that segment of our economy.

We applaud your support of the guaranteed student loan program and support your concepts in limiting its growth.

We thank you again and will answer any questions you might have concerning our position.

Senator STAFFORD. Well, thank you very much, Mr. Seipelt.

Mr. Barrett, do you wish to go next?

Mr. BARRETT. Yes, sir.

Mr. Chairman, members of the subcommittee, I thank you for the opportunity to testify under the student loan program.

I am John Barrett and the officer in charge of the student loan program at the Chemical Bank.

Chemical Bank is a lender in student loans in New York State. We have at the present time 60,000 student borrowers on loans, totaling $230 million. We participate in two programs: the New York State higher education and the united student aid program.

The major portion of our loans are made under the New York State higher education program. We project that by year end 1981, our outstanding loans will total in excess of $300 million. In New York State, Chemical and other lenders have made a commitment to the student loan program in the past and hopefully will continue to do so in the future. Since Congress passed the 1979 amendments which removed the ceiling and permitted the allowance to reflect the current market rate, student loans have given the lenders a fair return on their investments.

Major changes in the program could have an adverse effect on the return that the lenders presently receive. This would be particularly so in the case of small lending institutions. The result would be the elimination of small lenders to the program and the total concentration of student loan volume by the large lenders.

Specifically, I am referring to the elimination of the subsidy and the alternatives available for collecting such interest. One proposed alternative would be the monthly, quarterly, or periodic billing and collecting of unsubsidized interest by the subsidized institution. This is something that I have had some personal experience with. Back in 1972, lenders were required to bill and collect unsubsidized interest. The results were disasterous. In most cases, the interest was not paid by the student and collection and default proceedings had to be followed.

For the most part, this process was done manually since elaborate and expensive computer systems were required to perform the billing and followup required. Chemical Bank assures the getting out of the loan program.

In New York, we were extremely fortunate to have a State agency take over this very burdensome job. If the lenders were again required to bill and collect the interest, I feel that many lenders, particularly the small lenders, would discontinue student loans.

Another proposed alternative would be the capitalization of interest during the in-school and grace period. Again, the smaller lenders would be unable to wait 4, 5 or more years for return on their investment and, consequently, they would be forced out of the loan program. Only large lenders would be in a position to wait until repayment commences.

I am not aware of any type of consumer loan in which a borrower can defer payment for a period of time that can exceed 4 years. The effects of capitalization would be greatly reduced by the number of lenders in the program.

Let me comment briefly on current loans.

If the rate on current loans to be fixed, and today the rate is 17 percent and next month the rates are at 14 percent, next year at

18 percent, it could commit the lender at a mix of many different rates.

Chemical Bank fully intends to support participants in the current loans, provided the rate is comparable to student loan programs. A fixed rate of 12 or 15 percent to be paid by the current—is reasonable, providing there is also a variable rate tied to current market conditions to assure the same return on current loans that we receive on student loans.

I would like to also mention that the 1980 amendments which grant a 6-month grace period after each deferment is, in my opinion, unnecessary and should be eliminated.

I thank you for the opportunity to discuss these proposed changes on the student loan program.

Thank you.

Senator STAFFORD. Thank you very much, Mr. Barrett.

Who will go next?

Mr. Spiller?

Mr. SPILLER. I am Robert Spiller, president of the Boston Five Cent Savings Bank. We are the largest savings bank in Massachusetts and I think the second largest student-loan lender in Massachusetts, but being a large savings bank today does not mean much any more. My work has been in housing in the past, this past year, just to—because the thrift bank is very different from the Chemical Bank; it is a different operation, which it is important that both views be heard, although they are similar. This past year, we did under 6,000 loans in an amount over $15 million, and currently we are processing, in the first 5 months of this year, about $7 million in current new loans to students. I would talk some policy; I do not have a prepared text. I would rather respond to some—the issues that I think are important. I can lend money to students; I can sell the loans and I can relend again and keep a fairly substantial flow of dollars available to a very large student population in our industry. I believe there is some tightening down that needs to be done, either through mandating of some minimum amounts, either within the program or by a lender; I believe that people who earn over $200,000 should not come in and borrow student loans, and I see that abuse and I could cite you many examples of something that has been an abuse.

A few years ago, when we could not track down where a student had moved to because the school would not give out the address—things like that have tightened down, but there are more things that need to be done.

The question of interest subsidy; I do not really think it is a question. If the interest subsidy does not continue in its current form, or something comparable, the lender, such as myself, could not participate in the program. Interest to us cannot be capitalized. It has to be earned and received in a timely manner, simply because the industry that I am in is in battle sufficiently well now that it cannot afford loss leaders.

I think a question is always asked: Why are we in the student loans? Rather than wait, I will answer the question up front. We are in the student loan business because it is of benefit to our economics; it provides to our institution some future customers, which is very important; we are in the retail business.

It provides us with a liquid portfolio because we sell all of our student loans so that we can take care of a lot more kids and within the charter of what we do, we are dedicated to housing and therefore we would also be dedicated to student loan lending; otherwise, we should function as a different institution, as you know.

I think there are a couple of things that could well be reviewed. I think within Sallie Mae, I think some significant achievements could be achieved in the area of servicing. I think there are too few people servicing Sallie Mae loans. I think some cooperative effort in software, and then putting up the bid, more people to get involved in servicing and letting these people buy the software packages in Sallie Mae.

I think there are some practical things that could be done to simplify some of the cost of servicing and I think also there ought to be some review of some of the guidelines that Sallie Mae lives with; I have watched housing grow; I have watched Ginnie Mae and Freddie Mack grow and I do not like to see the tail wagging the dog, if that is the right way of putting it; because I think they are a service agency and should not be the agency making the basic decision; that should be coming from the education side and, the final comment I would make is, in the world of housing today, the typical piece of paper or pieces of paper necessary to put a loan through are probably 34 feet long and I would certainly hate to see that happen in the world of education, for a student loan, because that would very clearly drive all private lenders out of the marketplace. They could not afford that kind of paperwork.

Thank you.

Senator STAFFORD. Thank you very much, Mr. Spiller.

Dr. Davies?

Dr. DAVIES. Mr. Chairman, members of the committee, I am Gordon K. Davies, the director of the Virginia Council of Higher Education and I chair the Federal Relations Committee of the State higher education executive officers.

Our organization is the organization of the central State agencies in the United States who have the responsibility for coordinating or governing higher education in the States.

Mr. Chairman, let me start by saying that we fully support the Federal efforts to reduce spending and to control inflation. I was struck, Mr. Chairman, by your comments on the delicate balance which must be maintained with the abilities of the students, parents, colleges, banks, to support education.

I would like to add to that balance, if you will allow me, the ability of State governments to pay their share, not only to the public institutions—and Senator Randolph, but to the private institutions.

Many of our States, Virginia being one of them, has a substantial grant program in support of private higher education. We give $700 to every Virginia student in a Virginia private institution this year and next year that number will go as high—well, by 1983, as high as $1,000 per student.

Our job in the State is generally to make the tough decision at the State level among good things, deciding which good things to do; and that way, it is analogous to the kinds of decisions that this

subcommittee and the Senate is facing in higher education. Good higher education costs money.

If the Federal Government has to cut back on its support of higher education, if the State revenues are tight and they are across the country, then parents and students must expect to pay more money in tuition and fees.

If we are to take, Senator Stafford, take Vermont's figures as an example, Vermont receives from the Federal Government, from the guaranteed student loans, the Pell grants and the other institution-based program, receives more than 50 percent of all the tuition and fee revenue it must collect to run its institutions.

If these moneys are not available, then clearly they have to be passed on to the students themselves and their parents.

Now, Virginia is a pretty—is in a pretty good position as a State, financially, right now. We are still growing as a population and industry is still growing but if we were to take a base of $500 tuition for a Virginia student, in a public college, in 1982, through 1984 on that basis, something in the neighborhood of $90 will be added just because of inflation; that takes tuition from $500 to $590. On top of that, something in the neighborhood of $50 will be added to replace general-fund tax dollars which are simply not available. That takes the tuition increase to $140 on a base of $500. Clearly, what is happening in the States is that the pressure is on the parents and the students to come up with more money; and it is ironic and potentially tragic that at the Federal level the pressure is on you to makeup decisions about which money to take away from the same parents and the students.

Mr. Chairman, on behalf of my organization, I would like to tell you that we can enforce Senate bill 1008. The interest subsidy that you propose to maintain we strongly support; whether the need limit is $25,000 or higher. I would suggest it needs to be discussed.

We would certainly support counting social security and veterans' benefits as part of the student's assets; we would support higher interest rates on parental loans. We would suggest to you that it would be good to look at the peculiar situation of independent students, especially those students who are independent and have families, have responsibilities in the communities.

There are many colleges in Virginia where there are more people over 22 than there are under 22 enrolled. The average age in our community colleges is 28; the average age in the urban communities is higher than that.

These people, many of them, find themselves as single parents looking for their first career, as young married people looking for theirs—the break which will give them a better economic life and a better opportunity to contribute to the well-being of this country.

We would suggest to you, then, Senator, that it would be useful to go back and consider whether provisions could not be made to include these independent students as separate category receiving special treatment in S. 1108.

Mr. Chairman, as part of my testimony, I have appended a set of positions adopted by the State higher education officers on these and other positions and I will be pleased to answer any questions that the subcommittee might have.

Thank you very much.

[The prepared statement of Dr. Davies follows:]

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STATEMENT OF

DR. GORDON K. DAVIES, CHAIRMAN

FEDERAL RELATIONS COMMITTEE,

STATE HIGHER EDUCATION EXECUTIVE OFFICERS

BEFORE THE SENATE SUBCOMMITTEE

ON EDUCATION, ARTS AND HUMANITIES

COMMITTEE ON LABOR AND HUMAN RESOURCES

MAY 11, 1981

Counsel: Michael S. Goldstein, Suite 500, 1275 Connecticut Avenue, N.W., Washington, D.C. 20036, (202) 862-8106.

Secretary Nancy M. Burns, Associate Director, Postsecondary Education Department, Education Commission of the States, Suite 300, 1860 Lincoln Street, Denver, Colorado 80295, (303) 830-3766, 3702.

Treasurer Lloyd Hoppert, Assistant Commissioner and Executive Secretary, Board of Higher Education, State Capitol Building, Bismarck, North Dakota 58501, (701) 224-2960.

Mr. Chairman and Members of the Subcommittee:

My name is Gordon K. Davies. I am Director of the Virginia Council of Higher Education and Chairman of the Federal Relations Committee of the State Higher Education Executive Officers (SHEEO). The organization which I represent is composed of the director, chancellor, commissioner, or president (the title varies from state to state) of the agency in each state which is responsible for coordinating or governing that state's system of higher education. SHEEO also includes the executive head of each state's postsecondary planning commission established initially under Section 1202 of the Higher Education Act - as that Act was written prior to its reauthorization last October.

My organization very much appreciates the opportunity to offer some observations and to make some recommendations today. We also thank you, Mr. Chairman, and Senator Pell for the expert assistance which is continually provided, both to SHEEO and to its members in our individual capacities in the states, by the fine staff members which are under your direction. Each member of your staff is always ready to provide information which we need in the states. Moreover, each one is always eager to listen to our problems and concerns and to request our opinions about educational issues of importance to our states. For this and for your gracious hospitality today, we are most grateful.

I would like first of all, Mr. Chairman, to emphasize that SHEEO supports the efforts of Congress and the Administration to bring federal expenditures under control and to halt the inflationary rise in costs which has been so damaging to all of

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higher education. For several years the energy costs to provide heating and electricity for our institutions have generally doubled over the previous year, the construction costs of new academic facilities have increased in my own state by at least 150 percent in the last five-year period, and the charges for faculty and staff salaries, while never managing to keep up with inflation, have nevertheless grown annually between 6 and 12 percent. These increased and uncontrollable costs have resulted in grave fiscal consequences for most of higher education. As heads of coordinating and governing boards, it is often our responsibility to assist in the allocation of the scarce resources provided for higher education in each of our states. Therefore, we perhaps have more sympathy -- and empathy -- for the difficult task which you and your colleagues face in attempting to trim expenditures than do most organizations and individuals who testify before you.

All of the increasing costs for higher education must be borne by someone, and this is the message that I would emphasize to you today. For while higher education, and especially SHEEO, supports the need to reduce federal spending, we understand all too painfully that as federal support for higher education stabilizes or even declines - at the same time that inflation continues to rise and the cost of higher education inevitably increases - the states will be called upon to assume a larger burden of the total educational costs. Unfortunately, most states are in a situation comparable to that of the federal government, even though most are not operating with actual monetary deficits. The states' resources

are already strained and, without additional increases in taxes, most states will not be able fully to meet escalating costs which will apparently not be met in part by a growth in federal funds for education. This means that the consumers of education - the students themselves and their parents - will be forced to pay higher and higher tuitions, and this could seriously endanger student access to higher education.

In calling this potential danger to your attention, I do not mean to imply that the states are not prepared to assume their fair share of the increased financial burden which will fall to the states as a result of the effort to control federal spending. Indeed, many states, including my own, have already moved to address the potential loss of federal educational funds, particularly as the loss might affect the ability of students to enroll at the institutions. Recognizing the shortage of dollars at the federal level and with the realization that student tuitions in Virginia will be forced up dramatically in the next biennium because of a shortage of state revenues, Governor John N. Dalton's preliminary budget targets for 1982-84 would more than double the institutions' funding for student aid. Still, the additional dollars provided will only offset about one dollar out of every five which must be raised in addition to the normally expected tuition increases. The increased aid dollars proposed cannot begin to address the losses which we estimate will occur if the Pell Grant program suffers the decrease which we estimate (about $10 million over a two-year period in Virginia) if the program is funded at levels currently proposed. And the

economic climate in my state is generally much better than that found in many other states which have been hurt by more severe economic problems.

Mr. Chairman, as part of the necessary effort to control the cost to the federal government of the Guaranteed Loan program, I am pleased, on behalf of SHEEO, to endorse the concepts proposed in the student aid bill which you recently introduced and which is now before this Subcommittee. Most SHEEO members recognized very early after the passage of the Middle Income Student Assistance Act that the escalating operating and administrative costs of the Guaranteed Loan program would soon be out of control and must eventually be checked in order not to endanger the funds available for other aid programs. As a result, at its Spring meeting here in Washington in April, SHEEO adopted a position paper advocating the re-establishment of an income cap for this program. Under it, students from families with adjusted incomes below a specified level would automatically qualify for interest payments while students from families with adjusted incomes above the specified level might still qualify, on the basis of need, for the subsidy. Whether that cap should be set at $25,000, as proposed in the bill, or at some other level, I would leave to the Subcommittee to decide, with the assistance of the able representatives who are here today from the loan program and from the banking industry.

SHEEO also supports the proposal to count as financial aid, for purposes of determining the size of a loan, all Social Security and Veterans Benefits payments received by a student. We also favor charging a higher interest rate on parental loans. Both of these proposals are, of course, included in your bill.

In addition, I am particularly pleased that the federal government's payment of the interest subsidy is retained under this bill. The interest subsidy remains the heart and soul of the loan program.

While I defer to my colleagues in the financial aid community to comment in greater detail with regard to the proposals embodied in the measure before us to modify the Pell Grant program, I would like to touch on one matter that particularly concerns us at the state level. As I am sure you are well aware, the proportion of students attending our colleges and universities who may properly be classified as adults has risen dramatically in recent years. In many schools, adult students approach or indeed exceed the number of traditional 18 to 22 year olds.

When the Pell Grant program was initially enacted, it was directed towards that traditional, relatively youthful cohort. Now, however, it must also serve as a very basic instrument of financial assistance for the head of a household seeking to improve his or her employability, or for the single parent striving for a new or first career. The 1980 amendments sought to eliminate the gross inequities against such independent students

with dependents by limiting the differential between assessment rates for these students and what would be assessed for their own children. The new measure before this Committee eliminates this very important protection and jeopardizes the ability of many legitimately needy adults to obtain the educational services they need and desire. I urge you to incorporate language into this measure which restores reasonable equity for the adult student who must have the dual responsibilities of maintaining his or her family and seeking, through higher education, to improve their condition.

Mr. Chairman, I have appended to my statement copies of the position summaries adopted by SHEEO with regard to the Pell Grant program; the Title I programs, about which I would like to say a few words; the reauthorization of the Vocational Education Act; and the Guaranteed Student Loan program. I would be happy to elaborate on any of the position summaries, but because the time is limited today, I would like to conclude my testimony with a brief statement about the role of the Title I programs in the federal-state partnership for postsecondary education.

Last Fall, Congress combined several federal programs which are administered at the state level into Title I of the reauthorized Higher Education Act. Among the programs included are the state postsecondary planning activity (formerly the postsecondary commission - or 1202 - program), the Educational Information Services program, and the Community Services and Continuing Education program rewritten to emphasize the con-

tinuing education aspect of the program. Title I, as reauthorized, is actually a block-grant program, which demonstrates how that concept can be applied to higher education and emphasizes the partnership for postsecondary education which has now developed between the federal government and the states.

In short, Title I embodies the focus on federalism which the Administration is eager to establish for many other federal programs. It would be contradictory, in my judgment, to the goals of the Administration and Congress to eliminate funding for this program at this time. It would also be counterproductive because, despite arguments that that the states should be solely responsible for funding the activities under Title I, there can be no better demonstration of the federal-state partnership than is found when both levels of government work together to plan for the future development of education in this country. We have mutually accepted a responsibility to provide more information to students about educational opportunities or to reach unserved or underserved adults with educational programs which will make them more productive members of society. I urge, therefore, that this Subcommittee continue to be supportive of the Title I program.

Mr. Chairman, again I appreciate the opportunity to speak to you today and to thank you on behalf of SHEEO for the support which you continue to give to the states, which do have the final responsibility for providing higher education to the citizens of this nation. I would be pleased to answer any questions which you might wish to pose to me.

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FINANCIAL ASSISTANCE PROGRAMS

SHEEO POSITION:

1. Pell Grant Program FY 82

   A. Cost of attendance and family contribution schedule as provided under current law.

   B. Structure award formula to include a minimum student self-help commitment, through work or loans, in addition to expected parental contribution and grant aid.

   C. Include all education benefits under social security and veterans' programs as student resources.

   D. Maintain half cost limitation.

   E. Support the legislatively mandated maximum grant. If appropriation is inadequate, utilize ratable reduction formula included in present law.

2. State Student Incentive Grant (SSIG)

   The State Student Incentive Grant (SSIG) Program should be supported and expanded to provide a greater incentive for states to provide matching funds in the form of State Scholarship and Grant Programs designed to provide for local needs. States should determine institutional and student eligibility for programs.

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3. Guaranteed Student Loans

   A. Limit eligibility for GSL to students with adjusted family income of $35,000 or less, except where need demonstrated.

   B. Maintain the in-school interest subsidy.

   C. Eliminate all deferment periods except those for in-school, unemployment and hardship.

   D. Eliminate 6-month grace period following deferments.

   E. Delete separate treatment for independent students.

   F. Treat Social Security and Veterans' education benefits as student financial aid for purpose of computing GSL level.

4. Oppose tuition tax credits as a substitute for direct student financial assistance.

Adopted by the full membership
April 10, 1981

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TITLE IB
(State Planning, Continuing Education,
Educational Information)

SHEEO POSITION: Support continued funding for this title in FY 81 and beyond.

RATIONALE:

1. This is the single title in the Higher Education Act which is designed to accomplish the administration's goals of improving the federal-state relationship and shifting responsibility to the states.

2. State higher education planning is essential in avoiding waste and unnecessary duplication, and in using available resources most effectively.

3. This title promotes greater access to postsecondary education by underserved parts of the population, thereby increasing the quality of the workfonce and national productivity.

Adopted by the full membership
April 10, 1981

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VOCATIONAL EDUCATION ACT REAUTHORIZATION

SHEEO POSITION:

1. Vocational Education grants should be block grants made to each state for use by educational agencies.

2. Funds authorized under the Vocational Education Act shall be used exclusively for education programs.

3. State Advisory committees should be optional.

4. The Vocational Education Data System (VEDS) should be eliminated.

5. Federal approval of state plans should be eliminated.

6. The Vocational Education Act should leave to the state decisions about which postsecondary institutions will provide vocational education.

Adopted by the full membership
April 10, 1981

Counsel: Michael P. Goldstein, Suite 720, 1725 Connecticut Avenue, N.W., Washington, D.C. 20036, (202) 862-8104.

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Senator STAFFORD. Thank you very much, Dr. Davies.

Might I start with an informal question to the two bankers?

I note especially, Mr. Barrett, you referred to small lenders, and that term has been kicked around quite a lot, but not defined.

Could you tell us, in your opinion, what you consider a small lender?

Mr. BARRETT. Yes, Senator, I am referring to the savings bank, savings and loan associations, not Chemical Bank or any major commercial lenders.

Senator STAFFORD. Would you put some kind of a dollar limit, just for our guidance, on what you would consider small?

Mr. BARRETT. I would rather not at this moment, Senator. But for the past several months I received numerous telephone calls from savings banks, wanting us to buy their portfolio, because of the need for cash, and this has happened more and more today, Senator.

Senator STAFFORD. Mr. Spiller, would you have any comment there?

Mr. SPILLER. Yes, I think it breaks down, John, we agree, no problem. I think the thrift bank that is under $100 million, that has not learned its way into the secondary market, be it for student loans, or even in the world of mortgage lending, to use the Fannie Mae over there—in a sense, they are a small lender, because they do not have the expertise or the people to explore those areas, and I think that is where the definition really falls.

Senator STAFFORD. Thank you very much. That gives us some kind of a benchmark.

Mr. Seipelt, one of the concerns that has been expressed concerning the need test in the GSL program is that lenders would not make loans of small amounts.

Can you tell us, from the perspective of a State guarantee agency the problems associated with a need test?

Mr. SEIPELT. Yes, Senator, I believe there are two problems in regard to the problem of a need test analysis and the problem of small loans.

The first problem with the small loan is to the middle size and small lender which these gentlemen were just talking about, in terms of the profitability of those small loans in relationship to their overall portfolio. The smaller a loan gets, in terms of the service costs, it does not change the cost to service that loan. So whether that loan be a $500 loan, or $2,500 loan, the servicing cost in relation to how the loan is put on the system, the collection requirements, and those kinds of things do not bear it.

Therefore, if you move those portfolios to smaller loan amounts, dealing with more students, the effective cost of that lender is to drive his cost up.

The second problem with the need test is, as I perceive it, and as the counsel perceives it, is the fact that Senator Randolph was talking about in terms of discretionary incomes. The needs analysis system allocates parental contributions to families. Those expected parental contributions are assumed to be available through some cash resources, cash, checking accounts, what have you.

It is our contention that the lower income levels, $25,000 to possibly $40,000, which is mid-America,that those contributions are

not available in cash, and therefore if those contributions are to be met, which is what this program has been all about since 1965, they must be done through a credit financing mechanism.

Senator STAFFORD. Thank you.

Would either of the gentlemen representing banks care to comment?

Mr. BARRETT. No, sir.

Senator STAFFORD. Is there disagreement?

Mr. SPILLER. There is the need for a minimum amount of loans, there is a need for that.

I have a concern for the great middle range of income, and I see a figure of $25,000 being bandied about, and I think that needs a lot more flexibility than that, because there are other factors that must come into play, and I think the deterioration of that lies within the world of education, not within the world of banking.

Mr. BARRETT. I would like to add a word or two.

There is a great difference, Senator, between a student loan and a personal loan, or automobile loan, where the lender disburses a check, and the borrower pays or does not pay. Before a student loan is satisfied, there is many phases that the loan goes through. A student is entitled to various types of deferment, unemployment. The conversion of the loan from in-school status to repayment status.

There is a great deal of contact, a great deal of paperwork involved in student loans. At Chemical our average loan is not around $1,000, but $2,400 to $2,500, and that is because of a lot of medical student loans that we have, graduate loans.

There is no question in my mind but that if the lenders were to make a lot of thousand dollar loans we would go out of the program.

Senator STAFFORD. Thank you.

Mr. Barrett, as one of the largest GSL lenders in the Nation, currently, could you tell us what effect the changes envisioned in S. 1108 would have on Chemical Bank's operations, and your willingness to participate in the program?

Also, could you give us your assessment of the effects of the administration's proposal?

Mr. BARRETT. OK, Senator.

There is no question in my mind but that Chemical Bank and the larger commercial banks would be in the program, regardless if there was a sufficient return or not. This has been true in the past. Probably it would be continued in the future.

The changes that I mentioned would have a specific effect on the small lenders. We have the funds, the money to have elaborate computer systems and, we have them. We could take on many additional loans without substantial increase in the cost of operation, because we have these systems. Not every bank can say that. Very few banks can say that.

Have I adequately answered your question?

Senator STAFFORD. I think so.

Mr. Spiller, do you have any comments on that?

Mr. SPILLER. I cannot go into detail on both bills. I did not—I was not apprised of my need to be down here until about 24 hours ago, so it was tough. I am not familiar with the background matters. I

can only talk to what I perceive of what I can and cannot do from a viewpoint of the kind of lending that I can, be it the interest rate on the student loan, or the parents' loan.

On the parent loan, I think we have to be at a market rate in one form or another, be it subsidized or unsubsidized. But I do not believe that parents who are of sufficient means should be receiving a subsidized rate. I think that should be brought to market, and I think to move it to a fixed rate is not the right answer. I think it has to go to a market rate that floats, or adjustments.

Senator STAFFORD. Mr. Spiller, your bank is one of the few lenders embracing a parental loan program. Can you tell us why you think this is important to your operations, and why other lenders have not similarly embraced the program?

Mr. SPILLER. We did write the first parent loan in the country shortly after the first of the year, and then struggled for 30 days to change the paperwork. I think a lot of lenders, particularly the smaller ones in my industry, the savings, S&L's, are a little slow in moving and, I think they are not overly aggressive, and they are not marketing oriented in looking for new ways of finding customers, and finding income, and we are happy to be aggressive, and I think that is honestly the only answer to the question.

Senator STAFFORD. Any other members of the panel care to comment on that matter?

If not, Senator Pell?

Senator PELL. Thank you, Mr. Chairman.

There has been some discussion about what effective dates for any changes in the GSL program would be workable. I am curious what dates you would select?

Would July 1, for example, be the date that you would use, or do you have any better suggestion?

Mr. BARRETT. We are processing applications for the September semester, and we are approving them, sending them up to the higher education in Albany. I do not know what effect this would have in changes if the program became effective July 1.

We are presently, right now, very busy with new applications.

Mr. SPILLER. I would answer quite equally.

Any effective date, any earlier than October 1, would be political dynamite for both people here in the city and people in our institutions if there were to be a July 1 date, because there would be a significant number of disappointed people who would have to take their wrath our some place.

Senator PELL. There are going to be a significant number of disappointed people period.

Mr. SPILLER. I think that might be true.

Senator PELL. As to the date we put in the bill, October 1 would be your recommendation?

Mr. SPILLER. But with the number of loans, applications that our various institutions have approved, and are in process, the undoing of that, and the disappointment that has accumulated because of those sensitive approvements, would be rather difficult.

Mr. SEIPELT. Can I respond to that?

Senator PELL. Yes.

Mr. SEIPELT. I believe in my written testimony we have indicated the July 1 date to implement the changes, any changes that we are

talking about could be potentially very disastrous for higher education this fall.

We have suggested to the committee, through our testimony, that the implementation date for any changes in GSL be drafted along the lines of the way you implemented the Higher Education Amendments of 1980, which would be an October 1 date for loans, for periods of enrollment beginning on or after October 1, so that we do not get caught in the processing period for all disbursements.

Mr. BARRETT. May I add just a word or two about that?

At this time of the year our processing has consisted of volume of 200 applications a day, and we have to start that right now. If we were in a situation that everything had to be held until July, and processed before September, that would be havoc in our shop, with any other major lender.

Also, for changes to be effective, it is not just a matter of passing something. There are computer changes, operational changes, and to come out with this middle of June, and to be effective July, would just be absolutely impossible.

Senator PELL. Of course, you recognize the fact that if you postpone it to October 1, we would not make the savings that we have to make under the requirement of reconciliation.

Mr. BARRETT. I realize that, sir. But there would be tremendous loss to the lenders.

Senator PELL. It would have to come out of some other portion?

Mr. BARRETT. That is right.

Senator PELL. Well, going back to this for a second. If we have to do it July 1, when we may feel compelled to do it, besides a lot of angry people and some pressures on you, what other problems are there?

Mr. BARRETT. The students would not have the money before September. We cannot process the volume that has already started. We cannot process that between July and September. It would be virtually impossible, Senator. The students would get the money perhaps in December or January.

Senator PELL. Dr. Davies?

Dr. DAVIES. Some years ago there was a processing snag in the basic grants program, and I think something analogous to that would occur again, in at least our State, where we had a tremendous disruption in the fall, in terms of just who was there. A lot of people who were planning on being there just did not show up.

Senator PELL. You may have to do it. I hope not.

Mr. SEIPELT. I would not like to lead you to believe that if it comes down to between July 1 and October 1, concerning the policy decision behind the legislation, in my opinion, and in the council's position, the process of an income ceiling with the continuation of in-school subsidy and needs analysis system, if we had to trade that off because the budget concerns for those 3 months, we would not want to support a long range program of doing away with in-school subsidy and needs analysis because of our budgetary problems for that particular quarter.

Senator PELL. Thank you.

Now, another question.

Because we hear that a needs-based program would not work, because lenders do not like to make small loans, what is the

smallest loan that a lender will make and still remain in the program? What are the factors that determine lender participation in the program? Also, what is the definition of a small lender?

Mr. BARRETT. Senator, we have no limit. We get occasionally $500 requests, even $200 requests. However, there are very few requests for under $1,000. Our average loan is in the vicinity of $2,400 to $2,500. And very—I would say less than 1 percent were under that amount.

Senator PELL. Do you make loans to students who have no connection whatever with the Chemical Bank?

Mr. BARRETT. Yes, sir.

Senator PELL. So you are the lender of last resort in New York City?

Mr. BARRETT. Right.

Senator PELL. Would the other banks?

Mr. BARRETT. In New York, Senator, most banks make student loans to anyone, a deposit relationship is rare.

Senator PELL. Even without a previous relationship? A poor black fellow can walk in and get a loan from your bank?

Mr. BARRETT. No question.

Senator PELL. Right, good. I am afraid it is not true all across the country. Is it true in Boston?

Mr. SPILLER. Rather than make a speech, I can say the exact same words that he has spoken but, there are banks that do not participate in the student loan programs, and there are some banks that will only lend to their customers, and why they will do it, I do not know the answer. But we will lend to anyone who comes in our door.

Senator PELL. Good.

What has been your experience, Mr. Seipelt, with other areas of the country, in this regard?

Mr. SEIPELT. I believe the experience is that since 1976 we have expanded the program in relation to the direction that the Congress indicated, of open access for guaranteed student loan.

We have, practically in every State in the country, a last resort program, which in my particular State, the State of Colorado, those loans are made by the largest lender in the State who, for the reason because of residency, or does not meet the qualifications of an individual lender, can meet the program. So we do have open access.

In regard to the—I am not sure, did you ask—part of your question was the small balances?

Senator PELL. No, my question was do you, in your experience, do you find that students in any city around the country can go to any bank and get a loan?

Mr. SEIPELT. Yes, I believe they may not be able to get it in their particular town, but if they come through the guarantee agency, the guarantee agencies have lenders of last resort. So we do have the availability.

Senator PELL. In discussing the guaranteed student loan program, one of the things we hear always is escalated costs because of the Middle Income Student Assistance Act. Yet two other reasons for the escalating costs are increases in interest rates and the fact that we removed the cap on the special allowance to lenders.

Do you think there is anything we could do to cap the special allowances and still keep the GSL program operating?

Mr. SPILLER. If there is a cap on the special allowance lenders and, at a particular moment in time the rate, plus the cap is below the market, then the lender will not be able to participate in that program. The lender must be able to participate at full market or he cannot participate.

In the environment of the thrift institution, simply because he cannot afford to subsidize this kind of—any kind of program today, not in his environment.

Mr. BARRETT. Senator, I heard someone this morning, I do not know who it was, mention the fact that with the fixed rate, plus the variable allowance, the return was 18 percent. It is true that for one quarter we received 18 percent. However, in looking back over 1980, I believe the average rate was 13 percent, and if we were to assume that for 1981 it was going to be 18 percent, this is what we get on our charge cards, and other types of consumer credit and, there is far more processing cost involved in student loans.

Mr. SPILLER. May I add one more point?

Just by reason of comparison this past week, the Federal Reserve was more than willing to lend money to us for equity at 18 percent. This is for a major bank, and therefore, I cannot afford that kind of negative.

Senator PELL. Finally, State guarantee agencies receive, as you know, administrative cost allowances and insurance premiums on guaranteed loans.

Why do the agencies need both of these sort of subsidy payments? Could the agencies live with a flat $10 allowance, similar to that which the financial aid directors get now?

Mr. SEIPELT. If I might, Senator Pell.

The process by which a guaranteed agency is financed is quite intricate, and quite unique in relationship to the debt it must pay back, in relationship of its Federal contracts, in our cash flow for defaults dealing from bankruptcies and this type of thing.

The situation in regard to the premium and administrative cost allowance, the administrative cost allowance came about in the 1976 educational amendments, by which, as I have testified, the direction that the Congress wanted the program to go at that point in time was an expansion of the program to provide the kinds of things that these gentlemen were talking about in relationship to enrollment verification procedures, the managing of their portfolios, and the overall upgrading of the system so that we did not have a large default program as was being experienced in the Federal Government.

So my answer in relationship to the administrative cost allowance, plus the insurance is, yes, in many States, those—especially the new States west of the Mississippi, which is where 22 new States have been created since 1976, many of those States are totally responsive and totally dependent on the guarantee premium for their funds, and also for administrative cost allowances, to provide the kind of services that were mandated in the 1976 educational amendments.

As far as $10 a head fee, like is made to the administrative overhead for the individual institutions and for the educational

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institutions, I would see no way that a guaranteed student loan program, guaranteed agency could finance both its reserve fund, its operating overhead at that kind of rate.

Senator PELL. Thank you very much, gentlemen.

Senator STAFFORD. Thank you very much, Senator Pell.

Senator Randolph?

Senator RANDOLPH. Yes, Mr. Chairman.

Mr. Seipelt, I am going to ask you a question which will be the same question asked to our panel of four witnesses today.

Do you believe that the program that has been in a sense suspended by the new administration, was a good program?

Mr. SEIPELT. The program had been suspended—I am sorry?

Senator RANDOLPH. The guaranteed student loans.

Mr. SEIPELT. The program in terms of relationship to student loan program, the potential administrative proposals embodied in S. 1109, in my opinion, my personal opinion, will pretty much bring to a halt the credit financing mechanism. The attendant collapse of the availability of credit for those students to attend public and private education this fall, and the attendant problems with the community, the communities which are being supported around those educational communities will be disastrous.

Senator RANDOLPH. That is a reaffirmation of what you said in your opening statement?

Mr. SEIPELT. Yes, sir.

Senator RANDOLPH. I appreciate it.

Mr. Barrett, what is your feeling about the same question I asked?

Mr. BARRETT. I have heard many people talk about the loan program as a giveaway program, a program that students get the money and they run, and there is no tracing or tracking, and the Government does not do anything.

My experience has been limited in that we deal with the New York higher education program, and I can say, in all sincerety, that this has not been the case with the program that I have been involved in. The students do pay the money back.

Our default ratio—this is not actual payoffs from the Federal Government, but we run a delinquency ratio of about 4 percent. Out of all the accounts that are turned over, or referred to the State agency, because they were present, uncollectable, 80 percent of those are resolved.

We have a good program, and I do not think it is a giveaway program. I think there is a great need for it, and I just hate to see these things cut out.

Senator RANDOLPH. You would have been in favor then of continuing it?

Mr. BARRETT. Yes, sir.

Senator RANDOLPH. Thank you, Mr. Barrett.

Mr. Spiller?

Mr. SPILLER. I wish that some years ago when I went to college that I had a student loan program that I could have used. I would have gotten a much better education than I got.

I think there needs to be some tightening down, but on the other side of the coin, a discontinuance of the interest subsidy would kill

the program, and there has got to be somewhere in between a workable position that relates to those various factors.

But I believe that the abuses were largely curtailed about 3 years ago, with some basic changes at that point. I think perhaps we gave away perhaps a little too much, like a year ago.

Senator RANDOLPH. Thank you very much.

Dr. Davies?

Dr. DAVIES. Senator, I too think it is a good program. I think there is a basic set of problems under the given economic conditions that we are dealing with today, and I think with my colleagues to the left, that some tightening down has to be done.

However, it seems to me that the difficulties in the program do not warrant scrapping the program, or abandoning the commitment that you have made to this program, and that the States have made.

Senator RANDOLPH. Well, I assume my colleagues know, the chairman and ranking minority of this subcommittee, we do not have the votes, do we, in the Senate, to continue the program as it was?

Senator STAFFORD. That would be the Chair's estimate of the situation. Otherwise we would not have introduced S. 1108, which may be the least imperfect of any alternative offered to us under present conditions.

Are there any further questions?

Senator RANDOLPH. I would like to make a comment that I appreciate the responses that you have given. They all, in effect, are that the program was effective, is that correct?

Mr. BARRETT. Yes, sir.

Senator RANDOLPH. And that the program, if you were to say here today that we continue to need it, your response would be affirmative, is that correct?

Mr. BARRETT. Yes, Senator.

Mr. SEIPELT. Yes, Senator.

Senator RANDOLPH. I do not know how much it would change the opinion of the Senators—the administration on that matter. But I, for one, will stay awake at night trying to find the answers because I think a very detrimental approach has come into the administration's handling of the educational programs in connection, particularly I speak of it now, the student loan guarantee program. We will do what we can and perhaps can take some measure and work upon it, strengthen it, as I am sure Senator Stafford would want us logically to attempt to do. But, as of today, I am very discouraged about this whole situation, and I am discouraged as I talk with the college Presidents and the officers and the faculty advisers and the students throughout the college community in the State of West Virginia, about the impact on private institutions, and why I think the impact would be greater for them than the impact perhaps some other institutions.

I feel that an error has been committed, a grievous error, and yet, hopefully, we can work out something which will, in part, take the place of a program that, as Senator Stafford knows, came out of this committee. It did not come out of some other committee here on the Hill. This program, as Senator Pell, the long-time chairman of the subcommittee knows, of student loan guarantees

was a part of our effort to strengthen the process of education at the institutions of higher education level—and I am very concerned that we, in a sense, are now engaged in stifling the continuance of this program as well as the Pell grants.

But I am thinking especially now of the student guarantee loan program, which I think was soundly based. I think there were real improvements being made in the collection of those loans which were, for one reason or another, in arrears. I think we were strengthening—doing some of the tightening—that Mr. Spiller, spoke about. But the higher interest rate problem is something that is beyond the control of this program, which concerns me very much. Financial policies establishing market interest rates originate and are extended, through the Federal Reserve system. I think this is damaging to the building of the economy, and places a very heavy burden, one that I am not sure they can carry on parents and students alike.

I do not know what one individual can do about it, except she and he can continue to address this problem. I try to think of problems as opportunities and experiences. I have always done that, but this is a problem that does not seem to fall into either category very quickly. There are, I think, millions of people in this Nation that are greatly concerned about the Reagan proposals for reforming student aid, not because they are one political party or another, or even conservatism versus liberalism. I think the body politics is being weakened by what has been done and is being done in connection with a loan program which requires repayment as soon as that young man or that young woman has completed his or her education. I am not able to give much direction at the moment, but I think what we are asked to do with regard to student aid is a grieveous error on the part of the new administration.

Senator STAFFORD. Thank you very much, Senator Randolph.

I must say that the Chair shares much of your anguish in what is going on. I am a graduate of a college that sounds very similar to Salem in its makeup and financial background.

I hate to be here this year, as do you, taking apart the work that we did under Senator Pell last year, which we must prefer to what we are having to do now, but we simply have to carry out the mandates of the full Senate, so here we are.

Gentlemen, may I, on behalf of the committee, thank you all for being here with us. I know you have traveled some distance to be here.

I want to acknowledge that the committee is grateful to Mr. Michael Goldstein, counsel for the State Council of Higher Education for being with us also. Your principal answered everything so well. You did not have to give him any legal advice in the meantime.

We are grateful for your coming and assisting the committee at a difficult time. If you are looking for airplanes out of here this afternoon, the weather may mean some substantial delay before you can get out of here, but I think you can do it.

Thank you all very much.

There will be some questions in writing, if that is agreeable, in order to cut this hearing a little short, and we would appreciate answers at your earliest convenience. Would that be agreeable?

Mr. SEIPELT. Yes, sir.

Mr. BARRETT. Yes, Senator.

Senator STAFFORD. Now, the Chair would ask the final panel to come forward. Dr. Charles Saunders, vice president for government relations, American Council on Education; Mr. Peter Gossens, director of government relations, National Association of Independent Colleges and Universities; Mrs. Gene Miller, director, financial aid, Pasadena City College, Pasadena, Calif.; Mr. Steven Leifam, national director, National Coalition of Independent College and University Students, Washington, D.C., and, I understand that accompanying the principals are Mr. Dallas Martin, executive director, National Association of Student Financial Aid Administrators, Washington, D.C., and Mr. Eduardo Wolle, Legislative Director, United States Student Association, Washington, D.C.

I would say, lady and gentlemen, you can proceed in what order you wish. But I would point out that again, we are going to use the 5 minutes stop and go sign, because we are approaching 1 o'clock. We need to bring this to a conclusion.

Your full statements will appear in the record as if read.

STATEMENTS OF DR. CHARLES B. SAUNDERS, JR., VICE PRESIDENT FOR GOVERNMENT RELATIONS, AMERICAN COUNCIL ON EDUCATION, WASHINGTON, D.C.; MR. PETER J. GOSSENS, DIRECTOR OF GOVERNMENT RELATIONS, NATIONAL ASSOCIATION OF INDEPENDENT COLLEGES AND UNIVERSITIES, WASHINGTON, D.C.; MRS. GENE S. MILLER, DIRECTOR, FINANCIAL AID, PASADENA CITY COLLEGE, PASADENA, CALIF.; MR. STEVEN LEIFMAN, NATIONAL DIRECTOR, NATIONAL ASSOCIATION OF INDEPENDENT COLLEGE AND UNIVERSITY STUDENTS, WASHINGTON, D.C.; ACCOMPANIED BY DALLAS MARTIN, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS, WASHINGTON, D.C., AND MR. EDUARDO WOLLE, LEGISLATIVE DIRECTOR, UNITED STATES STUDENT ASSOCIATION, WASHINGTON, D.C., A PANEL

Dr. SAUNDERS. Thank you, Mr. Chairman.

I am Dr. Charles Saunders, speaking for the American Council on Education, and nine higher education associations, representing all the colleges and universities in this country.

I would say, we certainly share, Mr. Chairman, your statements expressed in your opening statement, and the opening statement of Senator Pell and Senator Randolph.

Certainly, it is distressing for us to come before this subcommittee, which has sponsored so much historic legislation to expand and to discuss ways to restrict those opportunities. The legislation you are considering today would remove—

Senator RANDOLPH. Mr. Chairman, ordinarily I would not interrupt, as you know.

I wonder if I may ask a question of Dr. Saunders?

Where are your supporters who should be standing around the walls of this room today? This is a most serious matter that we are discussing here in connection with higher education.

Where are the presidents, the deans, the members of the faculties, and the students in this country?

Dr. SAUNDERS. I think that is a very valid question.

I think the higher education community has heard, made itself heard in the budget debates, we have done everything we could to support your efforts and the efforts of your colleagues to increase the budget ceiling. I am not sure that we have any more encouragement over the prospects, or the final outcome, than you do.

Mr. Chairman, the legislation you are considering today would remove over 1 million middle-income recipients from the 2 primary programs for assisting college students, and reduce the value of awards to all lower-income students.

The administration has made its recommendations, and the chairman has introduced his own legislative alternatives, in S. 1108. We have grave misgivings about the magnitude of program cuts proposed in both bills, but believe that the approach of S. 1108 accomplishes its savings with less damage to the fundamental elements of the programs.

We have serious objections to the administration's proposal, for example, the $1,800 maximum award proposed by the administration for fiscal 1982 represents no increase in 1979, although college costs have risen 30 percent since then. Therefore, this administration would permit the value of the award to erode to the point where it would be worth only $1,350 in 1982-83, compared to 1979-80 dollars.

The proposal to increase the assessment rate to 20 percent would, in effect, repeal the Middle Income Student Assistance Act of 1978, which Congress enacted in specific recognition of the need to help middle-income families meet the rising costs of college. It would drop some 600,000 students from eligibility for Pell grants, those in the $19,000 to $25,000 income range.

The administration's proposal for a $750 self-help requirement for Pell grants is strongly opposed by the public sector, because the effect would only be borne by students attending low tuition public institutions, with family incomes between $8,000 and $15,000 a year.

Further deferral of the cost-of-attendance regulations would work another disproportionate handicap on 500,000 needy students, because it would maintain the fiction that $1,500 is a realistic limit on expenses for room and board, books, and personal expenses for commuter students not living at home.

S. 1108 would make several desirable modifications in the administration's proposals. Instead of authorizing the Secretary to set a rate, or series of rates on the assessment of discretionary family income, it mandates a series of rates. This would insure the application of graduated tax rates, which are essential to build equity into the single-need analysis system required by the 1980 amendments. It would also provide the flexibility to protect the poor, and maintain eligibility for a substantial proportion of middle income students.

S. 1108 also rejects the administration's recommendations to impose a $750 self-help requirement, and to delete the allowance of State and local income taxes as offsets against family income.

We have a number of concerns over S. 1108, and a number of additional suggestions which are stated in the testimony. I would just like to comment on one of those, in addition to a series of suggestions on the bill itself.

We would like to urge the addition of language to clarify the intent of Congress that the family contribution schedule may not be revised once the approval process has been completed.

We believe, Mr. Chairman, that the administration acted contrary to law in amending the family contribution at such a late date in the process this year. We are sure that that was not the intent of Congress, the way this should work.

I would like to submit for the record a legal memorandum outlining the reasons why we believe this action was contrary to law, and as I say, my testimony includes some proposed language to prevent this from happening again.

As far as the guaranteed loan program, it is obviously crucial for all students to maintain the integrity of the program for both those students who depend on guaranteed loans and for those students who depend primarily on grants and self-help assistance.

Our primary concern is that the inschool interest subsidy must be retained. I think we are talking here--here we are not talking about removing the interest subsidy, if we do remove the interest subsidy, we are talking about shutting down the program entirely, and you have already heard considerable evidence to this effect this morning.

Also, it is very important to us, too, that you not eliminate the current option to borrow a portion of a parental contribution and we have some suggestions on that score which will be discussed later.

[The prepared statement of Dr. Saunders follows:]

STATEMENT

BY

CHARLES B. SAUNDERS, JR.

VICE PRESIDENT FOR GOVERNMENTAL RELATIONS

AMERICAN COUNCIL ON EDUCATION

TO

SUBCOMMITTEE ON EDUCATION, ARTS AND HUMANITIES

COMMITTEE ON LABOR AND HUMAN RESOURCES

UNITED STATES SENATE

MAY 11, 1981

ON BEHALF OF:

American Association of Community and Junior Colleges
American Association of State Colleges and Universities
American Council on Education
Association of American Universities
Association of Catholic Colleges and Universities
Association of Jesuit Colleges and Universities
National Association for Equal Opportunity in Higher Education
National Association of Independent Colleges and Universities
National Association of State Universities and Land-Grant Colleges

Mr. Chairman and Members of the Subcommittee:

We are deeply distressed to come before this Subcommittee, which has sponsored so much historic legislation to expand postsecondary opportunities throughout America, to discuss ways to restrict those opportunities. The legislation you are considering today would remove over one million middle-income recipients from the two primary programs for assisting college students, and reduce the value of awards to all lower-income students.

Nevertheless, on behalf of associations representing all sectors of the higher education community, I appreciate the opportunity to outline our views on ways to meet the requirements of the Senate Budget Resolution to reduce the costs of the Pell Grant program and the Guaranteed Student Loan Program.

The Administration has made its recommendations (S 1109), and the Chairman has introduced his own legislative alternatives (S 1108). We have grave misgivings about the magnitude of program cuts proposed in both bills, but believe that the approach of S 1108 accomplishes its savings with less damage to the fundamental elements of the programs.

I. Possible Reductions in the Pell Grant Program

The Senate Budget Resolution limits the Pell Grant program to $2.466 billion for FY 82. This assumes that some $636 million in savings will be made in FY 81 as requested by the Administration, and that $711 million in savings will be effected in FY 82.

The FY 81 savings are to be accomplished by revision of the Family Contribution Schedule so as not to increase the poverty subsistence allowance for inflation; payment of a $1,750 maximum instead of the $1,800 maximum assumed in the FY 81 Continuing Resolution; deferral of the cost-of-attendance regulations as modified by the 1980 Amendments; and application of the first stage of the reduction schedule if

necessary to obtain the savings target. However, we agree with the House Appropriations Committee that implementation of the reduction schedule will not be necessary.

The higher education community was forced to accept these steps last month to avert a crisis developing on campuses across the country because of the Administration's action in halting the processing of Pell Grants to impose its revised Family Contribution Schedule. We continue to maintain that this action was contrary to the law, which does not provide for revision of the Schedule after it has been duly approved.

The Administration's proposed savings for FY 82 call for several additional steps, including: payment of an $1,800 maximum instead of the $2,100 authorized by the 1980 Amendments; increasing the assessment rate levied on family income from the current 10.5 percent to 20 percent (instead of the 14 percent rate set by the 1980 Amendments); requirement of an annual "self-help" contribution of $750 in determining awards; further deferral of the cost-of-attendance modifications made by the 1980 Amendments; and repeal of another 1980 change which would discount state and local income taxes from discretionary income.

The higher education community has serious objections to these proposals, which would have a detrimental impact on all eligible students. For example, the $1,800 maximum award proposed by the Administration for FY 82 represents no increase from FY 79, although college costs have risen 30 percent since then. Therefore, this Administration would permit the value of the award to erode to a point where it will be worth only $1,350 in Academic Year 1982-83, in 1979-80 dollars. Even though establishment of the $2,100 maximum authorized for FY 82 is clearly unrealistic, we believe strongly that it should be increased to at least $1,900 to help the neediest eligibles address increased educational costs.

The Administration's proposal to increase the assessment rate on family income to 20 percent would, in effect, repeal the Middle Income Student Assistance Act of 1978, which Congress enacted in specific recognition of the need to help middle income families meet the rising costs of college. It would drop some

400,000 students from eligibility for Pell Grants -- these in the $19,000 to $25,000 income range. The need which existed three years ago is even more acute today, and cutting these families off from this basic source of support would substantially restrict postsecondary opportunities to the detriment of the nation. The award for the $15,000 family would be decreased from $1,110 in Academic Year 1981-82 to $770 in Academic Year 1982-83.

The Administration's proposal for a $750 "self-help" requirement for Pell Grants is strongly opposed by the public sector, because the effect would only be borne by students attending low-tuition public institutions with family incomes between $8,000 and $15,000. It would save less than $50 million and would significantly complicate the grant award process for students at low-tuition institutions, while increasing federal costs for processing these awards.

Further deferral of the cost-of-attendance regulations would work another disproportionate handicap on 500,000 needy students because it would maintain the fiction that $1,500 is a realistic limit on expenses for room and board, books, and personal expenses for commuter students not living at home. In reality these costs are well in excess of $2,000 for any student not residing at home, and the 1980 Amendments set new criteria to end this inequity.

Grants of students living off-campus but not with parents, should be computed using an estimate of actual non-tuition expenses which is more reasonable than the current $1,500 standard, particularly because the awards of many of these students at low-priced institutions are limited to half the cost of attendance. For the campus-based student aid programs, the Department of Education has established average non-tuition expenses for all undergraduate college students at $2,800 for Academic Year 1981-82, approximately the amount of the non-tuition portion of residential student budgets in public institutions. We would accept a change in the 1980 Amendments to give the Department regulatory authority to establish reasonable cost estimates for commuter students for the Pell Grant program. However, we have no

indication that the Administration plans to propose any amount above $1,500, which has been in effect for 8 years with no adjustment for cost increases.

Realistic assessment of family discretionary income also requires accounting for state and local taxes paid, as the 1980 Amendments provided. To delete this important factor compounds the inequity of failing to define the family's discretionary income accurately.

S 1108 would make several desirable modifications in the Administration's proposals. Instead of authorizing the Secretary to set a rate or series of rates on the assessment of discretionary family income, it mandates a series of rates. This would ensure the application of graduated tax rates, which are essential to build equity into the single need-analysis system required by the 1980 Amendments. It would also provide the flexibility to protect the poor and maintain eligibility for a substantial proportion of middle income students. We urge that the language of the bill be modified to specify "a graduated series of assessment rates" to make this intent clear.

S 1108 also rejects the Administration's recommendations to impose a $750 "self-help" requirement, and to delete the allowance of state and local income taxes as offsets against family income. However, the bill would eliminate the home equity exclusion established by the 1980 Amendments, and reinstate the previous asset protection of $25,000 for personal family assets. In view of rising property values, we believe it is important to provide greater protection for home and farm equity. While we would not argue for a total exclusion of home equity, we suggest a ceiling of $50,000, retaining the $25,000 ceiling for assets of families who do not own homes.

We are also concerned with the provision of S 1108 concerning the treatment of independent students. This would repeal important reforms of the Middle Income Student Assistance Act of 1978 and the 1980 Amendments designed to provide more equitable treatment for these students. While some modification might be made in the assessment rate for independent student income, we could not support a return

to the wide disparity which previously existed in the treatment of independent and dependent students' families. (For example, the assessment rate for independent students certainly should not exceed twice that of dependent students' families.) We also believe that the current provisions for asset exclusion and taxation, subsistence allowance for single independent students, and the status of married independent students should be retained.

S 1108 also repeals the cost-of-attendance provisions of the 1980 Amendments. We understand that the intent of the language is to restore the previous authority for the Secretary to establish commuter and miscellaneous expense allowances. We believe this language [Sec. 4(e)] should be clarified to assure that this extends only to Pell Grants, and does not authorize the Secretary to regulate institutional charges and allowances under the single need analysis.

In addition to the above changes, we suggest that the Subcommittee consider several other changes. Social Security and Veterans benefits could be counted as student aid instead of taxing them as family income as in S 1108, for substantial savings by ending duplication of benefits. Further, the reduction formula could be modified to protect the neediest students and provide more equitable reductions for other students if awards must be reduced. Presently the scheduled reduction formula saves approximately $140 - $200 million (depending on which computer model is used). During this first-stage reduction, students with Eligibility Indices of 0-600 are protected. If more savings are needed, the entitlements of students with EI's of 0-600 as well as all other students are rateably reduced proportionately to the shortfall. In the rateable reduction, all students are retained in the program but the minimum award is reduced to $50. During scheduled reduction entitlements are reduced in five stages from 90 percent to 50 percent in 10 percent intervals. This produces inequitable "notches:" one student whose family income is only $1 lower than another's can have a much larger reduction in entitlement if one student's EI is 800 and the other's is 801. More serious is the fact that scheduled reduction

produces a specific dollar cut, and if more needs to be saved, ratable reduction would be required, which reduces awards for the neediest students with EI's of 0-600.

Under a linear reduction formula, however, awards would be reduced proportionately to the students' EI's or amounts of entitlements, and funds available, in a straight descending line. Any group of EI's or entitlements can be held-harmless as desired, that is, 0-600, 0-200, etc., and all other entitlements would be reduced proportionately according to funds available. When the award is reduced below $50, the student would be dropped from the program. If appropriations are short, many students could be dropped at the top range of eligibility, but the poorest students' awards would be protected.

Under such a formula, the parameters of the program could be held intact without manipulating the Family Contribution Schedule or cost-of-attendance regulations to save funds, poor students' awards could be increased and then protected, entitlements below the hold-harmless group could be reduced proportionately to whatever funds Congress decides to appropriate, and students rendered ineligible under the payment schedule would be those with the least need.

With these changes, we believe it would be possible to pay a $1,900 Pell Grant maximum in FY 82, restore indexing of the family subsistence allowance for inflation, implement improved cost-of-attendance regulations for Pell Grants, and still meet the desired savings goal.

A related option (and one preferable for pragmatic reasons to either the Administration's proposal or the proposal mentioned above) would be to defer changes to the Family Contribution Schedule. The pragmatic concerns are that it is already extremely late to introduce the single need-analysis system for both Pell Grants and campus-based programs established by the 1980 Amendments -- particularly when both bills before the Subcommittee would also put the Guaranteed Loan Program under this system.

There is simply too little time for the Executive Branch, the Congress, and the community to negotiate a new need-analysis system which would have major cost implications for the Pell Grant and GSL programs between now and this fall. The statute requires the Administration to submit a new Family Contribution Schedule by July 1, and that Congress review it by October 1, 1981. Since we have not yet seen any proposals from the Administration, and negotiations over a new Schedule are likely to be protracted, it may be most prudent to defer major decisions on tax rates on discretionary income until FY 83.

With a brief technical amendment, the statute could be modified to maintain the FY 81 tax rate on discretionary income and allow the Department to issue regulations on cost of attendance for the Pell Grant program, with a clear expression of Congressional intent that the regulations should be based on reasonable cost estimates.

If changes in the Schedule are deferred, during the coming year the federal government and the higher education community can consider whether funding constraints for Pell Grants make it unrealistic to use the same expected family contribution in need analysis for campus-based programs and Guaranteed Loans.

In addition to the above suggestions, we urge the Subcommittee to add one further amendment to clarify the intent of Congress that the Family Contribution Schedule may not be revised once the approval process has been completed.

As we noted earlier, Congress expressly provided a special procedure for approval of the Schedule. The procedure calls for the Administration to publish a Schedule well over a year before the year it goes into effect. It provides for public comment on the Schedule, and for prompt publication of a revision if either the House or the Senate pass a resolution of disapproval. It is our understanding that this procedure was designed to assure that, once accepted by the Congress, the Schedule would be implemented in time to begin the regular processing of Pell Grants on January 1, and that the system could not be disrupted arbitrarily by the publication of further proposed changes once the approval process has been completed.

Attached to this statement is legislative language to clarify our understanding of the law, that the Family Contribution Schedule does not fall within the general powers of the Secretary to amend regulations. We hope that you will accept this language to prevent any future repetition of the crisis which occurred this spring.

II. Possible Reductions in GSL Costs

Under the terms of the Senate Budget Resolution, the GSL must be limited to $2.873 billion in FY 82. This will require savings of $566 million from program costs under current law.

For students for whom the GSL program is the most crucial source of assistance, such savings are essential to maintain the integrity of the program so that they can continue to pursue their educational aspirations. For students for whom GSL is secondary to grant and "self-help" assistance, GSL savings are equally essential to control the costs of the program in order to maintain balanced funding of Pell Grants and the campus-based programs.

It should be understood that the rapidly rising costs of GSL (up from $367 million in FY 77) are not attributable to deficiencies in the program. GSL has been enormously successful in providing the means for students to finance their undergraduate and graduate education, but the program is tied to market interest rates that are beyond its control.

The GSL has, in fact, become a major vehicle for financing a college education. Over two million students borrowed under the program in FY 80, and that number is expected to reach three million during FY 81. The program is important for students attending all kinds of institutions, but particularly for those attending higher-priced institutions (in New York State, for example, two-thirds of students enrolled in independent institutions were GSL recipients in FY 80) and for graduate students (who comprise about 25 percent of the total volume of the program, and who have few other sources of support in meeting the high costs of graduate education since federal fellowships have been drastically reduced in recent years).

Therefore, any attempt to reduce GSL costs must be carefully designed to avoid making the program unacceptable to either lenders or borrowers. This is our concern with the Administration's proposal to abolish the in-school interest subsidy. We commend S 1108 for rejecting this approach.

The higher education community believes strongly that the in-school interest subsidy must be retained. If eliminated, the resulting debt burden would make borrowing too costly for many students, and increase the likelihood of defaults. Banks would be less likely to make loans because of the increased paperwork involved in collecting monthly or quarterly in-school interest payments from individual students. Lenders might not continue to participate in the program even if the statute were modified to permit the in-school interest to accrue and compound, and this would raise the debt for an undergraduate borrowing the maximum of $10,000 from $15,000 to $19,500 -- an extreme and unmanageable debt burden for most students, particularly those financing both undergraduate and graduate education. We do not believe that families who have genuine need to borrow should be forced to assume such excessive debt from unsubsidized loans at current high interest rates.

We support the concept that students should not borrow in excess of their families' realistic needs. However, the Administration's definition of "remaining need" (after subtracting Expected Family Contribution and other financial aid from total educational costs) could seriously damage the effectiveness of the GSL program. According to the Congressional Budget Office (CBO), it would "increase the program's complexity and reduce lender's yield per dollar loaned because the average loan amount would go down, but administrative costs for each loan would not. These changes would make the program less attractive to lenders, and as a result, some students (particularly needy students, who are generally less-preferred borrowers) could have difficulty obtaining loans." Evidence of this is the large number of Pell Grant recipients (over 400,000) who are also GSL borrowers.

The Administration would also eliminate the current option for students to borrow at least a portion of their expected parental contribution assuming that they could use the new Parent Loan program. Since the Parent Loan program does not yet exist for all practical purposes, it cannot be relied upon as a backup at this point. Therefore, the Congress should not eliminate the current option to borrow a portion of the parental contribution. It is important to assure that low-income students and others whose families are unable to provide their expected contribution can continue to obtain the resources to attend college.

We commend to the Subcommittee's attention other alternatives for achieving the goal of cost savings without risking the drastic effects which we believe the Administration's proposals would have on the overall viability of the program.

Before outlining these preferred options, a word of caution is necessary. While long-range savings of substantial magnitude are possible, short-run savings are limited by the extent to which current costs are built into the GSL pipeline. According to CBO, some $8.8 billion in new loan commitments will be made to almost four million borrowers in FY 82 under the current law, for program costs totalling $3.45 billion. Of this total, over 80 percent represents prior-year commitments. In other words, $2.7 billion will be needed to meet these commitments regardless of any changes which might be made in the law, unless Congress changes the terms of outstanding loans to reduce costs or unless interest rates on Treasury bills decline drastically (both unlikely possibilities). Therefore the only part of the FY 82 budget authority in which savings can be achieved is the $750 million for new commitments.

It should be noted that, of the $2.7 billion needed to meet current GSL commitments for FY 82, $1.8 billion is attributable to the special allowance for lenders. Any decline in interest rates would achieve significant savings in the special allowance: CBO estimates that a one percent decrease in the Treasury bill rate would save $250 million. The Subcommittee may wish to review current policy tying the special allowance to Treasury bill rates, which are a result of federal monetary policy. The

extremely high cost of the special allowance is due entirely to this phenomenon. There may be alternative mechanisms for setting the special allowance that would unlock it from strict adherence to Treasury bill rates and achieve some savings while continuing to make the program attractive to lenders.

Options for Limiting Eligibility for In-School Interest Subsidy

Presently, approximately 10.5 million students enrolled half-time or more are eligible for the in-school interest subsidy. Under the current need-analysis system, approximately half of these have documented need. Many at incomes from $30,000 to $40,000 have only marginal unmet need after expected parental contribution and other aid are subtracted from their cost of attendance. However, many of these families are unable to make their expected contribution due to their support of other children in college or other cash flow problems. The Administration's proposal to remove their opportunity to borrow a portion of the parental contribution would create serious problems for such students. It would also create a problem for students who show unmet need of less than $1,000, since lenders are generally unwilling to make loans in smaller amounts.

We would modify the Administration's proposal to accomplish cost savings without creating serious hardships for many middle-income families who have legitimate need to borrow.

One way to do this is contained in S 1108: to re-establish an income ceiling for eligibility for the in-school interest subsidy. Students with adjusted gross family income below the ceiling would automatically be eligible (thus saving substantial administrative paperwork), and could borrow to meet need and expected parental contribution up to the $2,500 maximum. A higher eligibility ceiling could be set for families with more than one child in college. Students with family incomes above the ceiling would still be eligible for the subsidy if they could demonstrate documented unmet need.

However, S 1108 would not permit students to borrow any portion of their parental contribution if they exceeded the income limit, even though they demonstrated unmet need. For reasons already stated, this is a serious flaw. The bill should be changed to assure that any student who has unmet need will be able to borrow his parental contribution up to the loan limit.

Another way to accomplish the same purpose is to permit all students with documented need to borrow their unmet need and up to half of their parental contribution, up to the $2,500 maximum. This would assure that all students who have need after they have exhausted other sources of student aid would be eligible for the GSL program. It would simultaneously ease the problem of students whose remaining need might be too small for banks to make loans, and that of students whose parents may have difficulty meeting the costs of higher-priced institutions. A variant of this approach would be to permit all eligibles to borrow at least $1,000.

This approach would retain at least some of the underlying philosophy which went into the creation of the program in 1965, namely that most parents do not have the available discretionary income to afford the increasing costs of college for their children. Whatever approach is taken, students should continue to be able to borrow at least half of parental contributions, until such time as the Parent Loan program is operating as a viable option.

Under both these approaches there need not be any significant increase in paperwork burden, either for lenders or for institutional financial aid administrators. We assume that a simple "benchmark" system could be devised to expedite the application process for students who have not already applied for aid.

Either or a combination of these approaches could restrict eligibility substantially. A $25,000 income cap with unmet need above that level would limit the eligibility pool to about 6.5 million students, which we estimate would save approximately $300 million assuming that 30 percent of eligibles would borrow (the current rate of borrowers to eligibles), and that the changes in eligibility would

be effective October 1, 1981. The approach of providing need and half of parental contribution would make approximately 7.5 million students eligible, and save some $200 million (about the same as a $30,000 income cap). A $35,000 income cap would increase the pool to 8 million and save about $150 million. A $40,000 cap would expand the pool to almost 9 million and save a maximum of $100 million.

Under either of these options we recommend that students who do not meet eligibility for the in-school interest subsidy should remain eligible for the loan guarantee, as was the case prior to 1978. During that period, when eligibility for the subsidy was limited to family incomes below $25,000 or those with documented need, fewer than five percent of Guaranteed Loans were unsubsidized. Continuing the eligibility of these students for the guarantee would not affect program costs significantly, but would provide an important option for those who are able and willing to cope with in-school interest payments and are able to find a lender.

Depending on how these options or their variations are structured, GSL program savings of up to $300 million could be realized without threatening the viability of the program for families and for lenders, which we fear would be the result of the Administration's proposals.

Other Recommendations for Cost Savings

Several other steps to contain or reduce the cost of the GSL program would be acceptable to the higher education community. While none of them would have as large an impact as reducing eligibility for the in-school interest subsidy, they would have a significant cumulative impact on costs:

(1) Increase the interest on Parent Loans from 9 to 14 percent, but continue the special allowance as long as interest rates are high.

The Administration's proposal to raise the interest rate to market rates, abolish the special allowance, and extend repayment to twenty years would, we believe, make the Parent Loan program so unattractive to parents and lenders that it could never become successful. S 1108 would raise the interest rate to 14 percent. At

this level -- higher than the rate for student loans but lower than most current market rates -- the program should prove sufficiently attractive to families in need of liquidity to finance their children's education. We support a fixed interest rate for parents, but we suggest that the Subcommittee review state usury laws to assure that the 14 percent rate will not cause conflicts and create inequities in treatment of borrowers from state to state.

(2) Reduce a student's eligibility for GSL by the full amount of any Social Security or Veterans Educational Benefits.

Currently these benefits are treated as family income for determining GSL eligibility, rather than as student aid. If they were counted as student aid, this would reduce loan eligibility for many students who now, in effect, receive duplicate benefits. We understand that S 1108 would accomplish this savings.

(3) Provide incentives for students to repay their outstanding loan principal through early repayment.

The current program provides no incentive for early repayment of loans. Long-term costs could be reduced substantially if borrowers took less time to repay. For example, proposals have been made to establish a staged set of incentives: discounting the loan by 30 percent of principal for full repayment within 30 days of graduation; discounting the loan by 20 percent for full repayment at the end of the grace period; and discounting by 15 percent for full repayment by the end of the first year in repayment status. We understand that CBO is currently analyzing the potential savings of this proposal, which we believe the Subcommittee should consider.

(4) Eliminate all grace periods except that following the in-school period.

The 1980 Education Amendments added a new six-month grace period following deferments for Peace Corps and certain other kinds of volunteer service. Elimination of these additional grace periods would accelerate repayment of loans without causing undue hardship. (This provision is not included in S 1108.)

(5) Eliminate higher loan limits for independent students.

The 1980 Amendments allow independent students to borrow a total of $3,000 per year, $500 more than the maximum for dependent students. Elimination of this additional amount would reduce the amount of data to be collected to determine the student's status, relieve administrative burdens on lenders and institutions, and constrain the growth of GSL volume and subsidies. S 1108 would accomplish this.

At the same time, it would be helpful to make parents of graduate students, and their working spouses eligible for the Parent Loan program to recognize their need to additional resources to meet the higher costs of graduate education. Spouses of undergraduate students should also be made eligible for Parent Loans.

We estimate that the recommendations listed above would reduce GSL costs by $50 - $100 million annually in addition to the $300 million which could be saved by limiting eligibility for the in-school interest subsidy.

We have one remaining concern with S 1108 which we would call to your attention: its provision for a July 1, 1981, effective date. We believe this is totally unworkable for the Guaranteed Loan program. A realistic assessment of the steps necessary to make any significant changes in the program, including revision of regulations, comment period, reprinting of forms, etc., preclude implementation before October 1 at the earliest. January 1, 1982, would be a more reasonable date. Serious consideration of earlier dates may cause uncertainty in the lending community leading to a virtual shutdown of GSL during the critical summer and fall period which are the peak for applications.

We welcome the opportunity to work with the Subcommittee to develop specific legislation to achieve the cost-saving objectives of the Budget Resolution.

ATTACHMENT

PROPOSED AMENDMENTS TO SECTION 482(a)(1),(2)
OF THE HIGHER EDUCATION ACT AND SECTION 431(d)(1)
OF THE GENERAL EDUCATION PROVISIONS ACT

Amend paragraph (1) of section 1089(a) of Title 20 of the United States Code, section 482(a)(1) of Title IV of the Higher Education Act, as amended, by striking out everything after the comma following the words "family income, which," and substituting instead the following:

> "together with any amendments published in the Federal Register, no later than August 15, 1981, May 15, 1982, and May 15 of each succeeding year, shall become effective July 1 of the calendar year which succeeds such calendar year, except as is otherwise provided in paragraph (2). During the thirty day period following publication of a schedule and any amendment to a schedule, the Secretary shall provide interested parties with an opportunity to present their views and make recommendations with respect to such schedule or amendment. Such schedule shall be adjusted annually."

Amend paragraph (2) of section 1089(a) of Title 20 of the United States Code, section 482(a)(2) of Title IV of the Higher Education Act, as amended, substituting in its entirety the following new paragraph (2):

> "The schedule of expected family contributions required for each academic year, including any

amendments thereto published pursuant to paragraph (1), shall be transmitted to the President of the Senate and the Speaker of the House of Representatives not later than the time of its publication in the Federal Register. If either the Senate or House of Represenatives adopts, prior to October 1, 1981, July 1, 1982, or July 1 of any succeeding year following the submission of such schedule and any amendments thereto as required by this paragraph, a resolution of disapproval of such schedule or amendments, in whole or in part, the Secretary shall publish a new schedule of expected family contributions in the Federal Register not later than fifteen days after the adoption of such resolution of disapproval. Such new schedule shall take into consideration such recommendations as may be made in either house in connection with such resolution. If within fifteen days following the submission of the revised schedule, either the Senate or the House of Representatives again adopts a resolution of disapproval, in whole or in part, of such revised schedule, the Secretary shall publish a new schedule of expected family contributions in the Federal Register not later than fifteen days after the adoption of such resolution of disapproval. This procedure

shall be repeated until neither the Senate nor the House of Representatives adopts a resolution of disapproval. The Secretary shall publish together with each new schedule a statement identifying the recommendations made in either house in connection with such resolution of disapproval and explaining his reasons for the new schedule."

Amend section 1232(d)(1) of Title 20 of the United States Code, section 431 of the General Education Provisions Act, as amended, by inserting after the following words in the first sentence "concurrently with the publication in the Federal Register of any final regulation" and before the following words "as required in subsection (b) of this section," the following:

"(except expected family contribution schedules and any amendments thereto promulgated pursuant to section 1089(a)(1) and (2) of this title)".

Explanatory Statement of Proposed Amendments to Section 482(a) of the Higher Education Act and Section 431(d) of the General Education Provisions Act

The proposed amendments to section 482(a) of the Higher Education Act, as amended, and section 431(d) of the General Provisions Act, as amended, are intended to accomplish two purposes. First, the amendments to section 482(a) clarify an ambiguity in the present statute regarding the proper procedure to follow to amend an expected family contribution schedule published by the Secretary of Education. The proposed statutory amendment to paragraph (1) requires the Secretary, should he desire to propose a substantive amendment to a published expected family contribution schedule, to publish the amendment in the Federal Register no later than forty-five days before the Congressional deadline to adopt a resolution of disapproval of an expected family contribution schedule. An amendment to a schedule may not be published and proposed after the date established in paragraph (1). An amendment to an expected family contribution schedule must also be subject to the thirty day notice and comment period provided for a schedule.

The proposed amendment to paragraph (2) of section 482 makes it clear that an amendment to a schedule must itself also be subject to Congressional review and a resolution of disapproval by either House. Since an amendment to a schedule must be published no later than forty-five days before each House may act to disapprove a schedule or amendment, no change to the deadline for Congressional action was necessary.

Furthermore, if either House adopts a resolution of disapproval as to a schedule or an amendment to a schedule, the Secretary of Education is directed to publish a new schedule of expected family contributions within fifteen days after the adoption of such resolution of disapproval.

Second, the amendment to section 431(d) of the General Education Provisions Act provides, that an expected family contribution schedule, and any amendments to such schedule, promulgated under section 482(a) procedures, are not subject to a forty-five day review by Congress and concurrent resolution of disapproval applicable to final regulations of the Department.

Senator STAFFORD. Thank you very much, Dr. Saunders.

Who will be next?

Mr. GOSSENS. Senator, I will go next, and take the next one.

My name is Peter Gossens. I am director of government relations for the National Association of Independent Colleges and Universities and, let me say, Senator, I appreciate the opportunity to be here this morning and present our views. We are in full concurrence with the statement just issued by the Association, the American Council on Education. We have some issues we would like to stress for you, particularly with regard to the guaranteed student loan program, and that is our sole reason for being here, not as a splinter off the higher education community.

As you know, independent colleges do form a major part of the partnership with public colleges and universities that provides the kinds of educational opportunities needed to meet the needs of our society. We think if you do damage to our sort of education--not you, but if one does damage to our sort of education--the cost to the public treasury at the State legislature level will be severe and something that the States cannot picture.

The burden of the proposed cuts would fall severely on independent colleges and universities. We do not have a State legislature to fall back on. Six out of ten of all of our undergraduate students depend on some form of need-based assistance. It is because of that heavy dependence that we appreciate your efforts to try to find a way around the budget instructions and away from the ways the budget instructions assumptions are developed.

However, we believe there is not an effective way and we believe that someone should come before you and tell you that there is no an effective way to achieve the kinds of savings that the budget resolution is telling you that you have got to do in 1 year.

For example, in the guaranteed student loan program, Congressional Budget Office and the Senate Budget Committee estimates for the funds you will need next year, fiscal year 1982, are $3.45 billion. That 2.7 is already committed, leaving you only $750 million in fiscal 1982 funds which are discretionary. The Senate budget resolution would have you take $566 million out of that

$750 million, thereby reducing the program by 75 percent in 1 year. We think that is unrealistic. We think once they get through the macroeconomics and the macrodollar figures and understand these kinds of issues that you are reducing guaranteed loans by 75 percent in 1 year; that we may be able to take the President at his word when he suggested to Members of the House of Representatives on the Gramm-Latta substitute budget that adjustments may have to be made and appropriations and authorizations later on down the road and not be held so tightly by the budget ceiling which both Gramm-Latta and the Budget Committee assume.

You have heard the history of the guaranteed loan program and the problems with some of the changes from others this morning. I will just stress two things.

One, if you make a July 1—in terms of change of loans, we can look back at the list and see what happened if Congress attempted an immediate change in the program. We had to come back with emergency legislation within a month and delay the effective date of those changes.

The second thing I would like to stress, Senator, is that with respect to your $25,000 income cap in S. 1108, we believe that kind of a change may be detrimental in good public policy from what we have right now. Right now we have a program accessible to all students from all income levels. The President has proposed that that access be limited in a couple of ways. We would go with one of his ways with a mild adjustment, that remaining need should include half of parental contribution.

We oppose the in-school subsidy, but we believe it is a least harmful way to go if you do allow a remaining need to be applied to all students.

According to Congressional Budget Office estimates, we list here your dollar savings by about $100 million, which if you take out argument that in fact the 75-percent reduction in GSL is unrealistic this year, the $100 million is not an amount to be dividing us.

Senator, let me finish by saying we believe some short-term savings and some substantial long-term savings, such as we proposed, may be affected. We believe you do not have to go to the approach that the Senate Budget Committee has proposed a 75-percent reduction in the program. We hope that our admonitions about the effects for immediate changes will allow you to pick up on the responsibility that Senator Randolph has addressed this morning and tell the Budget Committee and tell the administration—and I am sorry that some of the newer members of the subcommittee are not here to pass that word along as well to the Budget Committee; that a 75-percent cut in GSL is just impossible this year and let us go with some reasonable savings and put a safety net around these programs; because these are an investment in the future.

Thank you.

[The prepared statement of Mr. Gossens follows:]

Prepared Statement of Peter J. Gossens

Mr. Chairman and Members of the Subcommittee:

My name is Peter Gossens. I am Director of Government Relations for the National Association of Independent Colleges and Universities which includes within its membership 850 independent colleges and universities, 42 state associations of independent colleges and universities, and 28 national, regional, and special purpose associations of independent institutions across the nation. They reflect the partnership which independent and public institutions form to provide the diversity and variety of educational offerings required to meet the needs of our society.

In a process unique among educational associations, NAICU provides annual opportunities for the entire membership to address the public policy issues which are important to all of us, and to issue a comprehensive and detailed set of public policy statements which reflect our positions on those issues. At the concluding general session of our 1981 Annual Meeting on February 6, the membership of our Association adopted the following three statements of priority interest in the field of student assistance:

--NAICU will seek to assure an appropriate balance of funding between grant benefits, both Pell Grants and Supplemental and State grants, and self-help programs, such as College Work Study and Guaranteed Student/National Direct Student loans to assure financial accessibility for all Americans to all of our country's higher educational opportunities.

--If further changes in student loan legislation are considered, NAICU will seek to assure that loan capital is available to meet all legitimate student need unfunded by grants and work, that loan capital is expanded as necessary through the Federal Financing Bank, that student loan programs be simplified, that consolidation of student loans be further encouraged, and that administration and collection of loan obligations be improved through the availability of centralized services.

--Recognizing the potential budget stringencies in the years immediately ahead, NAICU will work actively with other higher educational associations in formulating

and advancing legislative initiatives which will help to control overall federal outlays for student assistance programs, while maintaining the continuity and balance of grant, work, and loan benefits.

Unfortunately, all three of NAICU's central public policy interests in the student assistance field are threatened by the Administration's proposals for achieving immediate budget savings in student assistance programs. The assumptions contained in the Senate Budget instructions further compound the problem. Institutions of higher education, already suffering from the effects of inflation, would be hard-pressed to find funds to make up the substantial FY 1981 and FY 1982 savings which will be required in the Pell Grant and Guaranteed Student Loan programs.

The burden of the proposed cuts would fall very severely upon the independent sector of higher education. We do not have a state legislature to fall back upon to make up a shortfall in federal funds. Nationally, according to the most recent studies of financial and educational trends throughout the independent sector, 60 percent of our aggregate educational and general revenues come from student payments, forty percent of which is from student aid programs. Furthermore, six out of ten of all undergraduate students enrolled in the independent sector receive one or more forms of need-based student aid.

While some NAICU member institutions possess substantial endowments, most do not. Even the endowed institutions already find that they have to dip deeply into endowment funds to maintain quality educational programs. And with college costs now averaging $6,100 per year for an undergraduate student at a four-year independent institution, this depletion of institutional resources quickly could become disastrous for our long-term financial security.

With this introduction as to our make up and the problems our institutions face, let me commend you, Mr. Chairman, and other Members of the Subcommittee for attempting to find ways to meet the reconciliation requirements.

However, there appears to be no effective means to achieve much of the savings called for in the budget instructions for FY 1982, especially with respect to the Pell Grant and Guaranteed Student Loan programs.

Pell Grants

We generally support the positions expressed in the statement by the American Council on Education with respect to possible reductions in the Pell Grant program. Specifically, we support (1) an increase in the Pell Grant maximum to $1,900 so that inflation does not cause thousands of students to be ineligible for the program; (2) authority, such as you propose in S. 1108, for the Secretary of Education to propose in the annual statutory Family Contribution Schedule procedure an assessment rate or a series of assessment rates to be applied against family income; (3) an increase in the family size offset to reflect the effects of inflation, especially on low-income families; (4) count Social Security and Veterans educational benefits as student aid; (5) modify the statutory reduction schedule to avoid the current inequities, and (6) defer substantial changes in the existing need analysis system until academic year 1982-83, because it is so late in the processing year.

We also believe that, in order to arrive at a realistic budget amount for Pell Grants for FY 1982, you may need to make additional adjustments to accomplish the above objectives. Two possible adjustments which we offer for your consideration are (1) to establish some reasonable limitation in the Pell Grant program, either by statute or by regulation, on the allowable cost-of-attendance for commuting students not living with their parents so that this allowance does not become a new mechanism for abusing the program, and (2) to establish some reasonable, workable, and equitable self-help expectation in the Pell Grant program so that students cannot pay for their entire cost of higher education with grant funds. The Education Amendments of 1980 established a theoretical self-help expectation by establishing the federal policy goal that federal grant programs and reasonable parental contributions will meet 75 percent of a student's cost of attendance, thereby implying a 25-percent self-help expectation.

Guaranteed Student Loans

Because students attending independent colleges and universities are so heavily dependent on the GSL program, our major concerns are with the instructions in the budget resolution and with certain provisions of S. 1108 which relate to GSL. While significant long-range savings are both possible and necessary, it is practically impossible to achieve the $ million in FY 1982 savings which the budget resolution would require.

The Congressional Budget Office estimates that, of the $ billion needed for GSL in FY 1982, only 22 percent is controllable. In other words, if the program were simply stopped on October 1, 1981, and no loans were guaranteed in FY 1982, the federal outlays for the program would amount to $2.7 billion. Therefore, the real effect of the budget resolution is to require $566 million in savings out of the $750 million which is controllable, or to reduce the controllable GSL budget by over 75 percent. Surely that cannot be the intent of those Senators who supported the Revised Second Concurrent Resolution for FY 1981. Surely that cannot have been the intent of the 253 Representatives who voted for the Gramm-Latta alternative Budget last Thursday. It is our hope that when the effects of these budget proposals are understood, Senators and Representatives will accept President Reagan's suggestion that adjustments will have to be made in authorizations and appropriations for FY 1982.

Furthermore, because most of the GSL outlays in FY 1982 will be for loans made during FY 1981, the only way to effect FY 1982 savings is by changing the statute so that new program requirements will apply to loans made in the last quarter of FY 1981. Because of the complexity of GSL program requirements on lending institutions across the nation, and the fact that lender participation in the program is entirely voluntary, history teaches us that substantial lead time is needed before statutory changes go into effect. In 1972, Congress attempted to impose immediate program

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changes, which resulted in a near-total shut-down of the program because most lenders simply withdrew from participation, requiring emergency legislation to delay the effective date of the changes. We fear a similar result if you attempt to impose a July 1 effective date on whatever changes you make in the statute.

With respect to the specific proposals to amend the statute to attempt to achieve GSL savings, let me offer the following comments. We believe there are serious public policy difficulties with the GSL provisions of the Administration's bill, S. 1109, and with the provisions of your bill, S. 1108, which would establish an income ceiling of $25,000 family income for automatic student eligibility for GSL and establish a need analysis system for all other students. We enthusiastically endorse the other proposed changes in the program which are in S. 1108.

When the GSL program was enacted in 1965, it was designed to provide a means whereby students from middle-income families could have access to borrowed capital to meet the expenses of higher education for their children. The program was designed to be funded out of capital from private lenders with a federal guarantee and subsidies to induce lender and borrower participation. It has been amended numerous times to reflect changing needs of its target population, limit or eliminate abuse, and to tie the subsidy for lenders to market rates. It has worked well to provide access to higher education to millions of American students and to provide reasonable yields to those lenders which have elected to participate. In recent years, the costs of the program have ballooned in large part because of the unprecedented and unexpected increases in the cost of money. For example, CBO estimates that if the interest rate for 91-day Treasury bills were to drop by only one point, the Federal outlays for GSL in FY 1982 would drop by $220 million. The savings which would result from a two-point drop in that interest rate, when added to the savings which would result from other parts of S. 1108 would be sufficient to meet the Budget instructions.

However, the Budget Committee has rejected the President's assumption that such a reduction in interest rates may occur, but took the Administration's other proposals for reducing GSL costs. Your bill, Mr. Chairman, proposes yet another way to achieve the amount of savings assumed in the Budget resolution, by setting an arbitrary income ceiling for automatic GSL eligibility. We believe, that there is another way of achieving similar savings over the long term by modifying the Administration's proposal. Our proposal would modify the President's proposal by retaining the in-school interest subsidy and including at least one half of the Parental Contribution (PC) in the amount a student would be able to borrow (limited, of course, by the authorized annual and aggregate maximum amounts).

It would assure that students from all income levels would be eligible for GSL loans if they have need after they have exhausted other sources of student aid. It would not assume need for students from certain income categories who may have no actual need, but, because their parents' income falls below a certain level, are automatically eligible for a $2,500 loan each year. In addition, it would eliminate the opportunity for students at any income level to abuse the program.

Our proposal would retain at least some of the underlying philosophy which went into the creation of the program in 1965, namely that most parents do not have the available discretionary income to afford the increasing costs of their children attending college. Under current law, students are allowed to borrow up to the full amount of their expected PC for other programs. The Parent Loan program was statutorily created in the Education Amendments of 1980 to maintain that philosophy in a separate program, but only one Parent Loan has been made in only one state. We urge you to continue to allow students to borrow at least one half of the PC at least until the Parent Loan program is operating as a viable option for parents to obtain the needed capital.

This proposal would not add significantly to the paperwork burden either for lenders or for institutional financial aid administrators if a simple "benchmark" system of need analysis were used in determining the expected PC, instead of formal need analysis. Currently, institutions of higher education are performing formal need analysis on nearly half of their students from all income levels, and nearly all of their low-income students, and we believe that requiring a simple "benchmark" type of need analysis on GSL borrowers would not impose a significant paperwork burden on them.

Mr. Chairman, these comments are offerred as an attempt to provide you assistance in the difficult, some would say impossible, task which you face of achieving the substantial savings in these two critical federal student assistance programs which the Budget Resolution would require. We hope that our admonitions about the effects of immediate changes, and our proposals for short-term and long-term savings are adequate to convince this Subcommittee, the Budget Committee, and the Administration that these programs are important enough to be included in the safety net of programs protected against all further cuts except those which may be needed to reduce fraud and abuse. I would be pleased to attempt to respond to any questions you may have.

Senator STAFFORD. Thank you.

The Chair notes that we are now into a rollcall vote in the Senate. I intend to see these hearings through even if I have to go over and answer another rollcall and come back.

Senator Randolph, what would your pleasure be here? We should answer this rollcall and we have two more witnesses to go on this panel.

Senator RANDOLPH. Mr. Chairman, I will attempt to come back, of course. It is a difficult schedule for me today.

Senator STAFFORD. It is for both of us.

Senator RANDOLPH. But I will attempt to come back.

Senator STAFFORD. If the panel can remain, we will go over and discharge our duties in the Senate and come back as quickly as we can.

[Recess.]

Senator STAFFORD. The subcommittee will please come to order.

At the time we left, we had two witnesses who had not had an opportunity to testify from the panel, Mr. Leifman and Mrs. Miller.

Have you made a decision as to which will go first and which will go last?

Mr. MARTIN. Mr. Chairman, Mrs. Miller and I would like to share our time, if that would be acceptable to you.

Senator STAFFORD. It will be acceptable. It will be 5 minutes apiece, though.

Mr. MARTIN. Thank you, Mr. Chairman.

We appreciate the opportunity to appear before this committee and express our views. We prepared a comprehensive statement, not only commenting on the administration's bill, but certainly

your bill, along with several recommendations and we also support the recommendations that have been addressed by the Council on Higher Education Loan Programs.

Mr. Chairman, we pointed out that the primary problem we face is because of rising inflation and short-term problems, that it is ironic that this committee, which has been so responsible for the program for years is faced now in responding to the Senate Budget Committee's resolution, but nevertheless, we want to try to assist you.

Let me just point out—and the last page of my testimony, before the supporting data, copy of the letter that we received this last week from a mother of two children who were attending school in Tennessee, who were applying about whether the loans were going to be available for this year, because we are faced with a difficult time that has already been made here of what is going to happen.

She reports that her two children who are using the guaranteed student loan program, it is still necessary for this family to contribute over $4,500 of their own expenses. They are two working middle-income families and their total income is about $30,000.

At the end of the letter, she says, "Any information you can give me will certainly be appreciated. If we could use this loan for 1 more year, I believe we will be able by planning and if everyone stays healthy to make it for the other 2 years. Needless to say, this is very upsetting to us since it seems to hurt the middle-income family that wants to work and pay their way. I know we will make it, but it is sure going to be difficult if it is not available for this year with no time to plan any budget. By the way, our income comes from my husband working three jobs—a fireman, a security manager for a department store, and an auctioneer. I work outside the home and both children have summer jobs, my son also works during the school year. We are trying to give our children an education in a good Christian school where they are happy and we hope become productive citizens. It seems we are being penalized for working hard."

I would suggest to you that this kind of a letter is begining to grow throughout the country in every school that we are associated with. We are finding ourselves with an incredible period of time with the difficult task that you have of reducing the overall cost in a very short period.

In essence, if we are not careful, with all the kinds of proposals that have been floating around, we may throw the baby out with the bath water, so to speak. We have introduced some concepts, including the one that you have in your bill, of an income cap, but we are concerned, Mr. Chairman, that your income cap of $25,000, which is necessary to meet the budget savings that are mandated is going to have a detrimental effect upon the attendance in institutions this fall and the choices that students will make in selecting institutions.

If the figures are correct from the Congressional Budget Office which would show that about 50 percent of the volume of loans might be reduced as a result of that kind of a cap, then we would suggest that that is going to be very disruptive on enrollments; and we would therefore support a much higher figure than that.

We feel that these difficult times do not leave us a whole lot of room, so one additional suggestion that we have offered, not that we like it, but with the possibility of perhaps having some kind of a Federal loan interest revision, that might be some kind of a fee that would be taken directly from the students at the time that the loan is made and paid back to the Government to help offset the costs that are incurred in this program.

This would not change the program as it is currently structured. It is a fairly simple kind of approach. It is not one that we welcome suggesting in light of the fact that we have always supported the benefit for students, but the choices that we have, as Senator Pell commented earlier, are not pleasant. It would be better for a student to know that we could get access to a loan and get some kind of a fee because of the high interest period that we are in, rather than going to accruing and compounding which is dubious that it will work, and pay up to four times that amount in a penalty.

We would offer that as a suggestion, knowing that there is resistance to it and we do not like it ourselves, but it would be an option that you could adjust later or remove if interest conditions change in the future.

At this time, let me turn to Gene Miller, who is the president of our association, and acting administrator, and ask her to comment further on some of the other comments.

Ms. MILLER. In the brief time we have left, I would like to emphasize two points that have been previously discussed as they pertain to the realities of students on the campuses across the country.

The first is the issue of self help or the additional $750,000 recommended in S. 1109, which is only an increase into the heavy burden for students.

Based on students' budgets, for example, at California colleges, the current self-help contribution that already exists ranging from a low of 23 percent to a high of 80 percent and in an attempt to try to show you how this works, there are some graphics at the end of our supplemental report which show some charts and will give you some ideas of how students packaged, and how much self-help they already have.

The second is the deferral of the cost of attendance provisions. This is especially devastating to the nontraditional students who are enrolling in larger numbers as was indicated earlier in the testimony. These costs have not been adjusted since the inception of the program in 1972 and, again, if you take a look at the graphics, you can see below the triangles we have put the actual cost, and these are based on some averages in California and below that we have the Pell grants costs that are allowable for those same student budget categories and you will notice the variation for students who live off-campus and for students who are heads of households who are married students.

I would conclude by reporting—supporting some of the proposals in S. 1108 to reduce costs. These are enumerated in the statements.

We thank you for allowing us the time to comment on these issues and wish you well in marking up that bill.

[The prepared statement and supplemental statement of Ms. Miller follows:]

STATEMENT

OF

THE NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

BEFORE THE

SENATE SUBCOMMITTEE ON EDUCATION, ARTS AND HUMANITIES

PRESENTED BY

GENE S. MILLER, PRESIDENT

AND

A. DALLAS MARTIN, JR., EXECUTIVE DIRECTOR

MAY 11, 1981

EXECUTIVE SUMMARY

1. NASFAA endorses the principles contained in President Reagan's Budget Reform Plan to refocus the student aid programs, but disagrees with the methods that have been proposed to achieve these ends.

2. Acceleration of costs in the GSL Program is directly related to current high interest rates.

3. Expenditures in student aid programs are essential in order to achieve the Administration's goals, since such a plan is dependent upon increasing productivity and strengthening national defense which are in turn dependent upon a well-trained and educated citizenry.

4. Significant legislative changes at this point in the student aid delivery cycle resulting in major reductions in anticipated funding will cause incomprehensible disruptions.

5. NASFAA supports the concepts of: (1)Awarding Federal student aid on the basis of financial need; (2)Parents assuming the primary responsibility for paying for their children's education to the best of their ability; and (3)Students contributing to their own educational expenses.

6. Growth in the teenage population has created pressure on the supply side of the youth labor market resulting in high unemployment rates for teenagers

7. Inflation and the unavailability of student employment have impacted negatively upon the parents' and students' ability to pay for post-secondary education. The jobless rate for teenagers in general was 16% in 1979, but 27.8% for minority teenagers.

8. Labor Department studies showthat the unemployment rate of 20-24 year olds with four or more years of college is 4% compared to 9.4% for high school graduates and 20.6% for high school dropouts of the same age. Financial aid makes it possible for students to obtain a post-secondary education.

9. Changing demographics and characteristics of today's college age student have created greater financial needs for today's student. Sibling overlap, higher proportional enrollment of lower income students, frequency of single parent households and average higher

ages of tooay's students create larger student expense budgets with lower available family contributions.

10. Adequate financial aid is one of the two single most critical factors involved in determining whether students will enroll and continue in postsecondary education.

11. Most postsecondary educational institutions are the largest or second largest payroll producing enterprises in the communities in which they are located.

12. A primary issue facing the United States Congress is whether or not to support the Administration's proposals to reduce program costs by methods which have been advanced.

13. Limiting Guaranteed Student Loans to remaining need is questionable when you examine the average loan amount based on college costs. Statistics show that the majority of students are borrowing amounts appropriate for their costs of attendance.

14. Limiting student loans to remaining need will affect the supply side of the GSL equation and cause lenders to make two loans, one to the student and one to the parent to cover the student's costs without any additional yield.

15. Elimination of the in-school interest subsidy in the GSL Program will significantly increase the debt burden of many students, perhaps resulting in a greater likelihood of students defaulting on their loans.

16. Extending the repayment period on Parent Loans and making them available to parents of graduate students will result in an increased number of death and disability claims being paid by the government.

17. Eliminating the special allowance in the Parent Loan Program will require parents to assume a greater burden and perhaps discourage them from taking out such loans because of their other credit obligations.

18. NASFAA feels that the recommendations which have been made by the higher education community for reducing costs in the GSL Program are more reasonable, cost effective and understandable by parents and students.

19. Imposing a self-help expectation in the Pell Grant Program does not affect everyone equally. Impact will effect low and moderate income

students attending low cost institutions.

20. Allowable costs under the Pell Grant Program bear little resemblance to the actual costs students and families must pay. Current cost allowances in the Pell Grant budget underestimate true expenses between $900 and $2500.

21. Imposition of the Administration's self-help provision will increase the work loan for institutions and requrie additional costs to be borne by the Education Department to modify their processing systems.

22. Weighted average thresholds of low income levels developed by the Social Security Administration to determine Pell Grant family size offsets are unrealistic compared to the true living costs that families face in today's society.

23. Phase out of student Social Security Benefits will affect low income students the most since 84% of the students come from families with incomes below $20,000 per year and 71% from families with incomes under $15,000 per year. Other student aid will not make up the amount of these benefits for most students.

24. NASFAA feels that the recommendations which have been made on pages 23 through 28 for reducing costs in the Pell Grant and GSL Programs are more reasonable, cost effective and understandable by parents and student.

Mr. Chairman and Members of the Subcommittee, as always, we appreciate the opportunity to express our views before this Subcommittee and realize that this Subcommittee, which has historically designed and supported student aid programs, is faced with the difficult responsibility of making statutory changes that will attempt to accomplish the goals of the Senate Budget Committee. Therefore, we will do our utmost to help you find solutions which are the least damaging to the fundamental goals of these programs.

We regret, however, that prevailing circumstances necessitate reductions in financial aid support to our country's postsecondary education students in order to meet the requirements of the Senate Budget Resolution. While we support the President's goal of reducing inflation, cutting back on unnecessary spending and balancing the Federal budget, it is ironic that we are here today to determine how to reduce the costs in the Pell Grant and Guaranteed Student Loan Programs when the truth is that expenditures in this budget function have primarily accelerated due to rising special allowance costs in the Guaranteed Loan Program which are directly tied to monetary policies determined by the Federal Reserve to restrict the supply of money by fostering high interest rates. Consequently, actions taken by both the former and the current Administrations to deal with the nation's overall economic ills have caused Guaranteed Loan costs to accelerate to the point that we must now cut need-based student assistance programs, such as the Pell Grant Program, in order to continue to preserve a viable loan program for middle-income families who desperately need the program to assist them in meeting postsecondary educational expenses because inflation has eroded their savings and reduced the discretionary money which they normally would have used for this purpose..

Therefore, we object, in principle, to the program reductions that have been proposed in the Administration's bill, S.1109, and the Chairman's bill, S.1108 for two reasons. First, we believe that the student aid programs have been working well and are achieving their intended legislative goals. Expenditures in these programs are reasonable and necessary if the President's broader Economic Recovery Program is to be achieved, since that plan is dependent upon increasing productivity and strengthening national defense which are in turn dependent upon having a well-trained and educated citizenry. Secondly, we believe that making significant

legislative changes at this point in the student aid delivery cycle which would result in major reductions in anticipated funding will be particularly disruptive to everyone concerned. Institutions have necessarily already begun making awards to students for this academic year and parents and students have made their educational plans based on this information. We would, therefore, caution you to weigh your decisions carefully since the decisions you make will have a profound effect upon the educational opportunities of our citizens, the survival of many of our educational institutions and the economic health of the many communities in which these institutions are located.

In the past several seeks, we have analyzed the President's Budget Reform Plan and S.1109 as they relate to the two largest student aid programs: The Pell Grant Program and the Guaranteed Student Loan Program. While we endorse the principles contained in President Reagan's proposals, we respectfully disagree with the methods proposed in S.1109 to achieve these ends. Our Association, composed of over 2,400 postsecondary educational institutions, has always supported the concept of awarding student aid on the basis of financial need. We also subscribe to the principles that: (1)Parents have the primary responsibility to pay for their children's education; (2)Parents will contribute to the best of their "financial" ability; and (3)Students themselves should also contribute toward meeting their educational costs. We are, however, fully cognizant of the financial pressures facing many families today which prevent them from fully meeting postsecondary educational costs. This circumstance is primarily due to the impact of inflation, rising taxes on discretionary incomes and the unavailability of summer and term-time employment to today's student.

Many recent news accounts have alluded to the problems teenagers and young college students have in obtaining employment. A recent study by the United States Department of Labor provides an indepth profile of the teenage worker. The study shows that growth in the teenage population has created considerable pressure on the supply side of the youth labor market. This pressure has caused consistently high unemployment rates for teenagers throughout the 1960s to the present. The jobless rate for teenagers has gone from a low of 7.6% in 1953 to 16%in 1979. It is important to note, however, that black and other minority teenagers have experienced consistently higher unemployment rates than their white counterparts. According to the Department

of Labor's statistics, in 1979 the unemployment rate for black and other minority teenagers was 27.8% compared to 13.9% for white teenagers. These statistics also point out that for most teenagers, finding employment is not an economic necessity since almost three-fourths of all teenagers live in two-parent families and only about 12% have no parental attachment. On the other hand, approximately one-half of all black teenagers reside in one-parent families or live apart from their parents; for these youth, finding a job can be crucially important.

It is also worth noting that the unemployment rate among youth is higher in central cities than it is in suburbs and non-metropolitan areas. Thus, the opportunity to enter the labor force is greater for students who do not live in the cities. It should be noted that more than one-half of black youth live in central cities and less than one-fifth of this population resides in the suburbs. Hispanics also account for a disproportionate share of the nation's unemployed youth. In 1979 among the Hispanic groups, Puerto Rican youth had the highest jobless rate, 27.8%, compared with 16.9% for workers of Mexican origin.

The Labor Department's study also shows that the amount of formal schooling is substantially related to the prospects of being employed. Those individuals who are 20-24 years of age who only completed 1 to 3 years of high school have an unemployment rate of 20.6%. Of 20-24 year-olds who completed high school, the unemployment rate is 9.4%. Of 20-24 year-olds who had 1 to 3 years of college, the unemployment rate is 7.2% and of those 20-24 years of age who have had 4 or more years of college, the unemployment rate is 4%. These statistics clearly support the importance of providing the financial means to ensure that American youth can obtain a postsecondary school education.

Our Association is also aware that student aid sources have increased dramatically in the past few years. Much of this increase in funding has been needed to simply keep up with the rising increases in educational costs and associated living expenses. Another often overlooked factor, however, is the changing demographics and characteristics of today's college age student. While families have always had the primary responsibility to pay for their children's education, there has been an emerging trend during the last decade of increasing numbers of families with more than one college age dependent. This sibling overlap increases the financial burden on some families in that they must meet postsecondary educational expenses for

more than one child at a time.

The Policy Analysis Service of the American Council on Education shows that "in 1967, 12% of all families with dependents in the 18-24 age group had more than one dependent enrolled in college; by 1976, the porportion had risen to 16%." While it appears that child spacing patterns did change in the 1960s, the frequency of sibling overlap had made it more difficult for parents to contribute as much as they have in the past.

Another factor which has affected the college age population is the racial/ethnic distribution of whites and non-whites. In 1965, non-whites constituted approximately 12% of the enrolled 18-24 year-old college age population. Current trends show that by 1985 the projected number of non-white 18-24 year-old students will constitute approximately 17% of the enrollees. Given disparities in family income distributions a higher proportion of non-white youth families have greater financial need. Likewise as has already been pointed out, a proportionally greater share of these students come from single parent families and have more difficulty in obtaining part-time and summer employment.

Age distribution of college students is another demographic that has changed. In October 1979, the Bureau of the Census reported that over one-third of all college students were 25 years of age and older. The following chart shows the age distribution of college students in 1972 as compared to 1979.

AGE DISTRIBUTION OF COLLEGE STUDENTS 14 YEARS OLD AND OVER

Age	1972	1979
14 - 17 years	295,000	311,000
18 and 19 years	2,680,000	2,844,000
20 and 21 years	2,116,000	2,353,000
22 - 24 years	1,461,000	1,794,000
25 - 29 years	1,229,000	1,679,000
30 34 years	531,000	996,000
35 years and over	783,000	1,402,000
TOTAL	9,096,000	11,380,000

With more older students enrolled in postsecondary education, the frequency of independents has become more prevalent. Consequently, for many of these students, the parent's ability to contribute towards their college education is no longer considered when the student's need is

assessed. In addition, the financial responsibilities of these older students is greater due to the fact that more of them are married, have other dependents and are the primary head-of-household. Student expense budgets, therefore, tend to be larger for these students than for typical dependent students. It should also be noted that more women than men were enrolled in college in October of 1979. This is the first time since World War II that women outnumbered men in college attendance. Below age 35, about 5 million men and 5 million women were enrolled in college, but among students 35 years old and older, there were 914,000 women and 487,000 men in college. Current divorce rates and the increased need for two working parents to meet financial responsibilities are primarily responsible for this difference in enrollment patterns.

Because of these changing demographics, the need for financial aid has become increasingly important. Today it is not unusual to find that at both public and private institutions between 50% to 60% of all students are dependent upon financial aid funding to help them meet the educational expenses.

Research shows that adequate financial aid to meet a student's need is one of the two single most critical factors involved in determining whether or not students will decide to enroll in postsecondary education and is also a major factor in whether or not the student will persist. Consequently, the fiscal viability of postsecondary institutions today is more dependent upon student aid funds than ever before and the financial health of these schools has a major impact upon the financial health of the total community in which these schools are located. Most educational institutions are the largest or second largest payroll producing enterprises in each community in which they are located and their economic impact is a critical factor upon the rest of the community. Studies have shown that conservatively, every dollar that is spent in a community for postsecondary education rolls over in that community at least three times during the course of a calendar year. Therefore if a school suffers a loss of three million dollars in student aid funding in a given fiscal year, the community in which it is located will suffer a corresponding loss of nine million dollars that normally would have been spent for other goods and services. This kind of economic impact is very significant and can have major negative repercussions if

not dealt with carefully. Perhaps even more significant is the potential impact upon the Federal budget. If a major reduction in student aid funding should occur and the outcome forced a large number of the more than 14 million enrolled students out into the job market, the unemployment rate could be increased significantly. Again statistics show that a one point increase in the nation's unemployment rate will conservatively increase the Federal budget deficit between $25 to $30 billion per year. These figures do not include the negative economic impact that such an increase would have upon state and local tax revenues, nor do they attempt to assess the harmful effects that impact our nation's human capital.

Nevertheless, we have described these changes in college age demographics and the resulting economic changes that would occur to show you that it has been necessary to have larger amounts of money in the past few years to assist the students who are enrolled in college than it did a decade ago and it will continue to do so in the next few years.

Our primary purpose today, however, is to examine the two legislative proposals before you and to provide information which will hopefully assist you in making decisions regarding whether to support or modify the proposals that have been advanced. Let us begin by reviewing the Guaranteed Student Loan Program.

Guaranteed Student Loan Program

The Senate Budget Resolution would require that the GSL program be limited to $2.873 billion FY-82 or a savings of $566 million from program costs under current law. The Administration has proposed to achieve this goal by: limiting borrowing to remaining need; eliminating in-school interest subsidy; requiring parents to borrow parental contribution through the Parent Loan Program; increasing the interest rate on parent loans from 9% to prevailing market rates; and by extending the repayment period in the Parent Loan Program from 10 to 20 years.

In order to provide you with a better understanding of what is contained in the Administration's proposal, let us look at the following issues.

Issue I - Whether or Not to Limit a Student's GSL to the Amount of Remaining Need.

As you are aware, the GSL Program is the only true entitlement program contained in the Title IV student aid programs and the costs of that program have increased substantially in the past three years. Secretary Bell noted in his March 11 testimony before the House Subcommittee on Postsecondary Education that "in the past three years the volume of loans has grown from $1.9 billion to $4.8 billion" and that during the last four years, as many loans have been insured as have occurred during the program's 15 year history. This growth is not surprising since it was not until 1976 that the law was changed to make the program workable and additional changes made in 1978 which eliminated some of the administrative restrictions, thus making the program more desirable to outside commercial lenders and opening the program to all students. The growth of State Guarantee Agencies, the establishment and maturing of secondary markets, and improvements in the Department of Education's operations have also made this program more viable. Still another factor which has already been mentioned that has greatly contributed to the costs of the GSL program is economic circumstances which have contributed to high interest rates which in turn have more than doubled the amount of special allowance the government must pay to the lenders on the outstanding obligations. Still the Administration contends that part of the program's spiraling cost is due to borrowing by high income families who have no need for the funds to help them meet their children's educational expenses. Therefore, they have proposed to limit the student's loan amount to "remaining need." This remaining need has been defined as educational costs minus other student aid and expected family contribution.

The impact of this change would require all borrowers to submit data to be processed by a need analysis service or to be hand calculated by an institution. NASFAA has found that in public institutions about 50 to 60 percent of the current GSL borrowers have not filed a need analysis form. In private institutions, about 20 to 30 percent of the current GSL borrowers have not

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filed a need analysis form. This change will not only increase the application processing time by approximately four weeks, it will also increase the amount of paper work by more than two-fold. In spite of this additional administrative burden upon institutions and a more complicated application process for students and parents, there are two other factors which must be considered before adopting the Administration's remaining need concept. The first question we must ask is, are students borrowing substantially larger amounts of money than they need to pay for their college education? If a student's educational costs are modest, would one assume they would only borrow a modest amount to cover those costs? If on the other hand, the student is facing high costs, is it reasonable to assume that he would borrow more? In an attempt to answer this question, I asked three of the larger State Guarantee Loan Program Agencies to provide data on their average loan size by institutional type and control. The following charts are a compilation of this data.

State of New Jersey

New Jersey Colleges - Loan Volume July 1, 1980, through March 5, 1981

Type	Students Enrolled	Percent of Borrowers	No. of Loans	Amount Guaranteed	Average Loan
Public 2-Year	44,597	11.1	4,985	$ 7,391,626	1,483
Public 4-Year	74,935	28.3	23,123	45,755,010	1,979
Private 4-Year	32,258	36.6	14,126	30,256,416	2,142

State of New York

Loans Guaranteed by Type of Institutions, Fiscal Year 1979-80*

	Number of Loans	Dollar Amount of Loans	Average Loan	No. of Loans as % of Full-time in state enrollment
CUNY 2-Year	5,806	$ 8,426,489	$ 1,451	12.5%
CUNY 4-Year	14,110	20,775,437	1,472	21.0
SUNY 2-Year	28,189	41,055,171	1,456	27.9
SUNY 4-Year	50,590	91,973,413	1,818	42.7
Independent 2-Year	9,887	16,004,808	1,619	41.0
Independent 4-Year	110,316	246,838,889	2,238	63.8
TOTAL Collegiate	218,698	425,074,207	1,942	41.1
TOTAL Vocational	31,117	45,219,111	1,453	NA
Out-of-State	58,652	143,447,312	2,446	NA
Out-of-Country	3,039	12,368,638	4,000	NA
GRAND TOTAL	311,706	$ 626,109,268	$ 2,009	NA

* 4/01/79 - 3/31/80

State of Pennsylvania

Loans Guaranteed by Type of Institution 1979-80

Type of Institution	Number of Guarantees	Value of Guarantees	Average Guaranty
Community Colleges	5,750	$ 7,630,649	$1,327
Hospital Schools of Nursing	2,466	4,758,417	1,930
Vocational Technical Schools	508	707,109	1,392
Business and Technical Schools	21,830	41,011,189	1,879
State Colleges and Universities	22,972	37,405,747	1,628
State Related Universities	34,769	73,310,672	2,109
Private Two-Year Colleges	1,755	2,948,912	1,680
Private Four-Year Colleges and Universities	42,576	94,350,790	2,216
Total All Institutions	165,678	339,145,060	2,047

While we realize the danger in drawing conclusions from such a small sample, we have no reason to believe that similar data from the other State Agencies would not reflect the same trend. Since costs are lower in community colleges and two-year public institutions, the average loan sizes do not appear to be excessive, and as anticipated, the largest average loan amounts are going to those students enrolled in private four-year colleges, which on the average, have the highest costs. Therefore, it would appear that the vast majority of students are not borrowing amounts which exceed their needs.

The second question we must ask is, if we adopt the remaining need concept, will lenders make loans for small amounts of money? As the GSL program is currently structured, students cannot only borrow the difference between the cost of education and other sources of student aid, but they may also borrow the parental contribution if it is not available because the family has cash flow problems. Enabling students to borrow their parental contribution was one of the original intents of the program when it was created in 1965. Under the Administration's proposal, this option would be eliminated, forcing the family and the student to each take out a loan in order to meet the student's educational costs. Such a policy will impact negatively upon the supply side of the GSL equation. To understand that aspect of the program one must look at the factors which affect it. The primary source of funding for the program is provided by "private capital" through private commercial lenders who are primarily concerned with two factors: (1) their cost of money; the servicing and/or administrative costs they incur; and (2) their net return from the program.

The Administration's proposals fail to take these factors into consideration. Instead, they would require a student who has $500 worth of remaining need to borrow from the GSL program but would prohibit him from borrowing the $1,000 which he needs to replace the parent's expected contribution. His parents would have to take out a parent loan to make up the $1,000 of parental contribution. From the lender's perspective this policy requires the making of two loans to meet the student's need rather than one, thus doubling the lender's cost for administering and servicing the note, while not providing him any reduction on his price of money or increasing his net return on the loan. Therefore, most lenders will have a negative yield on

the transaction and they in turn will simply stop participating in the program. The circumstance would be virtually the same even if one relied upon a National Federal Loan Bank, since the cost of money to the Federal government is virtually the same as to large money banks. Also, the increased administrative costs of making and servicing two separate loans would be more costly than the yield that private lenders are currently making.

Rather than adopting a complicated remaining needs test, consideration should be given to the establishment of some kind of family income loan eligibility index below which a student would automatically be eligible to secure a loan under the same terms and conditions that now exist. Families who do not meet this criteria could then be required to undergo a formal needs test and if they showed remaining need, this student also would be eligible for a subsidized loan. Development of such a family income loan eligibility index could be structured to accommodate those families having more than one child in school. The adoption of such a proposal would be simple for parents and students to understand, would be easy to administer and would eliminate the criticism that the program is being abused by the rich. S. 1108 seems to suggest such an approach by imposing a $25,000 income ceiling. Needless to say, this is preferable over the Administration's proposal to implement a full need analysis test; however, we believe that a higher income ceiling is necessary.

Issue II: Whether or not to eliminate the in-school interest subsidy on student loans which is paid on behalf of the borrower by the government. (Note: This amount is currently 9% against the amount outstanding. The subsidy is paid while the student is in school and during the six-month grace period.)

The impact of this change will add additional costs to the student and will require the lender to collect this amount from the student. The lender could do this in one of three ways.

Method A. Accrue and compound the interest while the student is in school and add it to the student's total loan obligation at the time he/she begins repayment.

Method B. Collect the money at the time the disbursement is made by either discounting the note or allowing the student to borrow additional money to cover the interest up front.

Method C. Bill the student quarterly and collect the interest.

Of these three procedures, Method A would appear to be the most acceptable to the lending community provided that lead time was given to help them develop soft-ware packages that could be used in administering the program and something could be done to address the absence of the income that is normally forthcoming during this time. However, to our knowledge currently, not a single lending agency has an automated system to handle such accruing and compounding. Method B is very difficult to handle for most students since their attendance patterns vary significantly, thus forcing the lender to make many adjustments and to calculate the amount of interest for each student on each loan made. Method C is administratively burdensome and costly for lenders and is hard on students who frequently do not have the dollars to pay the interest while they are in school.

It has also been suggested that Method C could be used, but to require the educational institution to collect the interest rather than the lending institution. Such a policy not only raises questions of the contractual legality of having a third party involved in the process, but is administratively not cost effective. Institutions and lenders alike would object to such a process and the additional reporting and required paperwork would be incomprehensible, particularly when you realize there are approximately 20,000 commercial lenders in the GSL program, 7,500 institutions eligible to participate, and 49 State Agencies, 17 of which have direct lending programs. It should also be noted that previously under this program when lenders were allowed to make unsubsidized loans and collect the interest from the student, less than 5% of the total loans lent were unsubsidized.

Another problem with eliminating the in-school interest subsidy is that the accrued interest would be added to the outstanding loan obligation, thus increasing the amount of special allowance that would have to be paid by the Federal government. Our association would question a policy change which significantly loads additional debt upon students while simultaneously increasing the government's expenditures for the special allowance. The decision to have the student pay the in-school interest subsidy has been described by the Administration as encouraging students to borrow rather than to work and/or save, to borrow in excess of need, and to stay in school longer than they otherwise might. We would challenge the Administration to provide data to support such conclusions. We would further suggest that all of us would be better served if we looked at the impact of

placing the in-school interest subsidy on top of the loan burden students are already incurring. A study of data at the Wharton School on the financing patterns of young borrowers which is being conducted by Kurt Kendis shows: (1) Despite general increases in salaries, starting salaries have not kept pace in many fields; thus the available income for student loan repayment in early years has very little room, if any, for a sharply increased obligation; (2) College graduates are still marrying at the more or less traditional rates so that single loan aggregates become dual loan aggregates. Further, divorce rates are more frequent, thus only exacerbating future repayment problems. Mr. Kendis points out that for a large portion of the current borrowers, if they are required to also pay the accrued interest, they will be more likely to skip a payment or two and end up in default. We would therefore strongly urge the Congress not eliminate the in-school interest subsidy on student loans.

Issue III: Whether or not to eliminate the Federal special allowance payment to lenders on parent loans and extend the repayment period up to 20 years.

The impact of this change would force lenders to increase the interest charged on parent loans to an amount comparable to the costs of a 91-day Treasury Bill rate plus 3.5%. (Currently, this is about 19%.) Lenders may be hesitant to lend to parents on long term obligations at this rate without having some assurance of an adjustment to reflect their fluctuating money costs. Likewise, parents may be unable or unwilling to use the program because of their other credit obligations and the higher interest rates. Longer repayments may make the burdens easier on parents, but again, increase the likelihood of more claims being filed due to death and disability. Lenders on the other hand are more reluctant to lend with such terms unless they receive a higher yield.

A better way to address this problem would be to increase the interest rate paid by parents. S. 1108 accomplishes this objective by increasing the interest rate from the current 9% level up to 14% and still having the government pay a special allowance, if needed, above this level. S. 1108 would need some additional language, however, to clarify the special allowance to be paid on Parent Loans and to address the issue of what happens to the interest rate if the Treasury Bill rate falls below 14%.

One other point that needs to be addressed with regard to the Parent Loan Program is the fact that for all practical purposes this is a non-existent program. As this committee knows, the Parent Loan Program was authorized less than seven months ago in the passage of the Education Amendments of 1980 and States are just now beginning to consider whether or not to implement such a program. A recent study by the Department of Education on the progress of States in implementing this program showed that 34 States and territories were awaiting a determination from their State Attorney General to see whether existing statutes would enable them to guarantee parent loans or had already determined that state legislation would be required. In addition, 17 of these states indicated that they would not have an operational program at any time in the coming academic year. While we believe that in the next year or two the Parent Loan Program can be used to help supplement the GSL Program, it is currently unrealistic to expect this program to be widely available in the next twelve months.

Given all of the aforementioned factors, S.1108 is a much more preferable alternative in the short-run, than is S.1109. Still, S.1108 necessitates a July 1, 1981 implementation date which is totally unrealistic and administratively impossible to ensure. We believe that a minimum of three months will be required after the enactment of any law in order to produce regulations, modify forms, change administrative procedures and notify all parties of the legislative modifications. Failure to provide such lead time will only create unnecessary confusion and a probable shutdown of the entire program, thereby forcing some students to either make major changes in or abandon their postsecondary educational goals.

Let us now turn our attention to the Pell Grant Program.

Pell Grant Program

The Senate Budget Resolution limits the Pell Grant Program to $2.466 billion in FY-82 and necessitates $711 million in savings over the 1980-81 academic year. Along with the rest of the higher education community, we have already been forced to accept major program reductions in the Pell Grant Program for this coming year. The Administration's bill S.1109 would further reduce the program in FY82 and would call for: adopting a self-help contribution; eliminating a deduction for state and local taxes in the determination of effective family income; and giving the Secretary control over all personal and living expenses in the student's cost of attendance budget.

We object to these changes since they generally would be the most detrimental to the lowest income students. A review of the following issues will hopefully clarify our concerns.

Issue I: Whether or not to impose a self-help expectation in the Pell Grant Program for FY-81.

The Administration's bill would change the Pell Grant Program for 1982-83, to impose a Self-help Expectation of $750 for each student. Secretary Bell stated in his testimony before the House Postsecondary Education Subcommittee on March 11, 1981, the "...self-help proposal is designed to ensure that no student, rich or poor, dependent or independent, attending a low-cost or high-cost institution, receiving Federal need-based financial aid, will escape nominal financial responsibility for a reasonable amount of his/her educational costs." Again, we support the concept, but would question whether or not the imposition of such a requirement will achieve the goal.

Since its inception the Pell Grant Program has contained a clause which has limited the amount of the grant to 50 percent of the cost-of attendance at the institution at which the student is in attendance, up to the maximum amount of the award. (Currently this maximum is $1750 for 1980-81). This provision in the Pell Grant Program assumes that the student and/or the family will have to come up with the balance from their family contribution or from other sources of aid, including work and loan assistance. The Education Amendments of 1980, which were approved last year authorize a future policy goal of having Pell Grants meet in 1985-86, up to 70 percent of a student's cost-of-attendance not in excess of $3700, which in combination with reasonable parental or independent student contribution and supplemented with SEOG and SSIG funds will meet 75 percent of a student's cost-of-attendance. Again, leaving 25 percent of the total costs, or more in a private institution, to be made up from self-help sources. Therefore, we feel that a reasonable self-help expectation is already factored into the student's aid package.

However, leaving this agreement aside, let us comment on the Administration's proposal. First of all, the implementation of the $750 self-help requirement only partially addresses the Secretary's objective, since not everyone will be affected equally. The structure of the Pell Grant program does not easily lend itself to effectively implementing a self-help requirement. Under

the Pell Grant Program with a $750 self-help requirement the student's award would be limited by the lesser of one of the following three tests:

(1) The half-cost of attendance factor;

(2) The maximum grant minus the family contribution (E.I.); or

(3) The cost of attendance minus self-help ($750) minus the family contribution (E.I.).

Students whose awards are limited by test (1), the half-cost factor, or by test (2), $1750 maximum award minus the Eligibility Index, will not have their Pell Grants reduced. However, students whose awards are limited by test (3), cost of attendance minus $750 minus the Eligibility Index, will have reduced awards.

Program staff within the Department of Education have stated that "there will be instances where students with different eligibility indices attending the same cost institutions, will receive the same award. This is because the award level is determined by the half-cost test. There will also be instances where students with the same Eligibility Index attending different cost institutions will receive the same award. This is because their award is determined by their entitlement ($1750 - E.I.)." Needless to say, such a change would therefore create inequity among students.

Members of Congress should also be aware that such a self-help requirement will only basically impact schools that have a Pell Grant cost of attendance of less than $2500. This includes approximately 600 institutions, the largest numbers of which are located in the states of Texas, California, Arkansas, Oklahoma, Minnesota, Ohio, Illinois and Missouri and approximately 310,000 students.

We have noted that the impact affects these schools that have a Pell Grant cost of attendance of less than $2500 and perhaps this should be explained. Secretary Bell noted that there are very few schools with such low costs in his testimony. That is certainly true if you go by the published costs in their college catalogues. However, in the Pell Grant Program these are not the "costs" that are allowed for determining a student's award. The current cost of attendance regulations for Pell Grants restricts costs for books, supplies, transportation and miscellaneous and personal expenses to $400 per year for all students regardless of where they are going to school or their academic program of study. By

comparison, these costs average between $950 to $1400 per year at most schools. (See the following chart taken from the College Cost Book - 1980-81, published by the College Entrance Examination Board of average student expense budgets by institutional type and control.)

Table 3. Budgets for resident students living in institutional housing by institutional type and control: 1980-81 means

	Public 2-year		*Private 2-year*		*Public 4-year*		*Private 4-year*		*Proprietary*	
Tuition and fees	$ 464	15%	$2,079	45%	$ 706	21%	$3,279	54%	$2,342	*
Books and supplies	218	7	213	5	235	7	242	4	243	*
Room and board	1,508	48	1,606	35	1,620	48	1,746	29	*	*
Personal expenses	571	18	495	10	586	17	524	9	*	*
Transportation	362	12	235	5	262	7	291	4	*	*
Total expenses	$3,123	100%	$4,592	100%	$3,409	100%	$6,082	100%	*	*

*Sample too small to provide meaningful averages.

Table 4. Budgets for commuter students by institutional type and control: 1980-81 means

	Public 2-year		*Private 2-year*		*Public 4-year*		*Private 4-year*		*Proprietary*	
Tuition and fees	$ 464	17%	$2,079	51%	$ 706	24%	$3,279	61%	$2,342	52%
Books and supplies	218	8	213	5	235	8	242	5	243	6
Room and board	965	35	914	23	884	31	924	17	1,002	22
Personal expenses	569	21	472	12	568	20	537	10	492	11
Transportation	537	19	361	9	483	17	401	7	407	9
Total expenses	$2,753	100%	$4,039	100%	$2,876	100%	$5,383	100%	$4,486	100%

Note: For commuter students, room and board includes board only.

In addition, the Pell Grant cost of attendance regulations restrict room and board allowances to $1100 per year for any student who is not residing in institutionally owned or operated housing, thus, discriminating against these students who are forced to live off-campus or in the community. Further allowances for expenses reasonably incurred for child care and cost related to a handicap are not considered in the current Pell Grant cost of attendance. Therefore, all students' "true costs of attendance" are automatically underestimated between $900 to $2500 in the Pell Grant budget.

The Education Amendments of 1980 changed these inequities; however, the Administration withdrew the revised cost of attendance regulations which were published January 21, 1981 in the Federal Register and will shortly resubmit a more restrictive and artificial set of regulations to establish such costs.

Given such a disparity between the real costs that parents and students must pay versus these allowable costs defined in regulations, is it any wonder that parents, students and institutional personnel question the

"realism" of the system?

For these reasons NASFAA is opposed to the inclusion of the $750 self-help component in the formula for Pell Grants.

In addition to this policy issue, there are also several Administrative factors which should be considered. A change, such as the inclusion of the $750 self-help provision, will require the institutional aid administrators to make more than one award calculation to determine which test results in the smaller award. Chances of miscalculating awards are therefore increased and modifications to institutional processing systems would have to be made. Schools will also be forced to carefully review each case to determine whether a waiver is required to forego the self-help expectation for their most needy students. Such additional steps require more time and money to be expended by schools in a time when administrative reimbursement allowances are being proposed for elimination and when the White House has promised to reduce regulatory burdens. Additional costs will also have to be borne by the Department of Education to modify their prime processing system as well as their subsystems which calculate awards for alternate disbursement system schools and the PIMS system which edits award data provided to them by schools.

NASFAA endorses a self-help philosophy, but it should not be imposed in this manner. Further, the current system certainly has a self-help feature based upon the program's design and artificially low cost of attendance standards. Likewise, the Uniform Methodology which schools use to award campus-based funds includes such a feature. To allow National Direct Student Loan and Work-study funds to be used to make up the self-help component as suggested by Secretary Bell, in his House testimony, is fine except that it changes the concept of using the Pell Grant Program as the "foundation" to the aid package and hurts those students in schools who do not participate in the NDSL and Work-study programs.

Issue II. The Appropriateness or Inappropriateness of Using the Weighted Average Thresholds of Low-Income Level for Pell Grants.

Another issue to be considered is whether or not it is appropriate to use the "Weighted Average Thresholds of Low-Income Level" developed by the

Social Security Administration to determine the family size offsets for Pell Grants? This may seem like an unusual question when we are debating how to reduce program expenditures, but it is one that is worthy of discussion particularly when the Administration has proposed increasing the taxation rate in the Pell Grant Program to 20% in FY-82 from the current level of 10.5% and the proposed level in the Education Amendments of 1980 for FY-82 is 14%.

Secretary Bell in his March 11, 1981 testimony cited the reduction in the taxation rate to 10.5%, which occurred in the passage of the Middle Income Student Assistance Act of 1978, from the earlier rate which taxed 20% of the family's first $5000 of discretionary income and 30% of the remainder. Granted this change helped to provide a minimum grant of $200 to the family of four with one child in school who had an adjusted gross income of $25,000 compared to the earlier cut-off for a similar family who was making $17,000. Still the purpose of this move was not only to provide hard working parents with a more timely benefit than the proposed $200 tuition tax credit, but also to recognize the unrealistic family size offsets which were being used in the Pell Grant Program.

Secretary Bell's testimony noted that the June, 1980 Department of Agriculture estimates of the cost of maintaining a 17 year old at home were $2,411, $3,347 and $4,691 on "economy", "low" and "moderate" budgets respectively. In spite of this awareness, the Secretary went on to criticize the Education Amendments of 1980 for setting a minimum living allowance of $1,100 for a college student living at home for purposes of receiving Federal student aid. Unfortunately, what should have been reviewed in that Hearing were the unrealistic figures that are included in the family size offsets for the Pell Grant Program.

The January 19, 1981 Federal Register included the following family size offsets for the computation of the expected family contribution for a dependent student from the effective family income. However, the Administration objected to these offsets and reissued lower amounts for FY-81 in the March 13 issue of the Federal Register which are now being used to determine student awards. The following chart shows these differences.

FAMILY SIZE OFFSET COMPARISON FOR DEPENDENT STUDENTS

Number of Family Members	Proposed FY-81 Amounts	Administration's Revised FY-81 Amounts
2	$ 5,650	$ 5,000
3	6,800	6,050
4	8,650	7,700
5	10,200	9,050
6	11,550	10,250
7	12,800	11,350
8	14,150	12,500
9	15,550	13,750
10	16,700	14,850

It should be noted that even the poverty program uses a figure of $12,000 for a family of four. By comparison, the Bureau of Labor Statistics of the United States Department of Labor showed that in the autumn of 1979 the United States average cost of the lower budget for an urban family of four was $12,585 per year while the intermediate and higher levels were $20,517 and $30,317 respectively. The Bureau of Labor Statistics' budgets represent the costs of three hypothetical lists of goods and services that were specified in the mid 1960s to portray three relative standards of living. These budgets are for an urban family of four consisting of a 38 year old husband employed full-time, a non-working wife, a boy 13 and a girl of 8. If in fact the BLS budgets were adjusted to exclude the nine months that the student would be enrolled in the postsecondary education, you would still have in their low standard budget an amount that is more than $1,500 above the Administration's proposal. Considering that the majority of parents who have children enrolled in postsecondary education more closely approximate the BLS intermediate budget level, the disparity is increased by four fold. To ignore the real costs that parents face in today's society by using inappropriate standards upon which the family size offsets are based and at the same time proposing to increase the taxation rate on discretionary income is to impose a rationing device that is virtually insensitive to the family's true condition. It would be far easier to incorporate realistic family size offsets that American families can believe in and then impose a series of graduated tax rates which will help to target the benefits to the program's intended population than to continue the "mythology" that is used in the current economic rationale to determine eligibility for the program.

The Administration has also proposed to exclude from discretionary income the new offset for state and local income taxes which was adopted in the Education Amendments of 1980 while presumably agreeing to not include any consideration if a family has home equity. While it is true that inflation has had the effect of artificially inflating the home equity of many families, a decision to ignore that asset and include taxes people must pay not only violates economic theory of determining ability to pay, but discriminates against non-home owners which constitute approximately one-third of America's families.

Issue III: Whether or not to Phase out Student Social Security Beneficiary Program.

As members of the Senate, you will also be asked to consider the Administration's proposal to phase out the Social Security Student Beneficiary Program beginning in FY-81. This proposal, they feel, is justified in part because of their contention that needy students will be served by the Pell Grant Program. To understand this issue let me share with you some data on this program which was recently compiled by the American Association of State Colleges and Universities. Their data shows that in the month of June 1980, a total of 760,000 students ages 18-21 received $169,803,000 under this program. Approximately 20% of these students were in high school; the remaining 80% were enrolled in postsecondary educational institutions. Of those enrolled in postsecondary education, 7% attended technical and vocational schools, 18% two-year colleges, 54% four-year and public colleges and universities and 29% private colleges and universities. Eighty percent of the students were from families where one or both parents were deceased or disabled and in most cases the mother was the head of the household. The remaining 20% were children of retired workers. A recent GAO study showed that 84% of the families had incomes under $20,000, 71% under $15,000, 53% under $8,000 and 29% under $6,000. Twenty percent of these students are black compared with approximately 11% blacks in the college population. Data for Hispanic students is not available but is probably also disproportionately represented. Forty-eight percent of the students come from blue-collar families compared to 20% of the general college population. Thirty-five percent come from families in which the father had not completed high school compared to 20% of the general college population.

A study done by the Social Security Administration indicated that these students, like those who attended college on the G.I. Bill, are especially highly motivated, more likely than other students to complete their programs and usually work and obtain a student loan to help pay for their educational costs. Given these facts, a reduction in such benefits will certainly impact negatively upon the college attendance patterns of these students.

A reduction in the Social Security Educational Benefits will increase the demand on Pell Grants and other student aid programs. Given the Administration's proposed reductions in the Guaranteed Student Loan, Pell Grant and National Direct Student Loan Programs, many of these students will find that there is simply not enough money available to fully meet their needs. The Administration has criticized the program because it is not need-based and because there is some overlap of Pell Grant and Social Security benefits. With 84% of students coming from family incomes under $20,000 and 71% from families with incomes under $15,000, it is close to being a need-based program. It is true that under current law, in families with incomes below $25,000 only about 14% of the benefits are counted against Pell Grant awards. This is because the benefit is included as family income rather than as a student resource. Our Association would therefore propose that Student Social Security Educational benefits be counted as direct student aid in both Pell Grant and Guaranteed Loan Programs as is being proposed in S.1108. However, there is an error in the manner in which this amendment has been drafted in S.1108 which would include such benefits in family income as well as student aid. This is obviously an oversight which can be changed by Committee staff.

The following recommendations will help to "refocus" the student aid programs as the President has requested, ensure that all students and families are treated more equitably in the determination of awards and will direct the program benefits to those citizens who have the greatest financial need. In addition, the legislative implementation of these changes can be done expeditiously and in a manner which will ensure that adequate Congressional oversight is maintained while still providing for an orderly modification to the total student aid delivery cycle which will adequately serve students, institutions and agencies in a timely and efficient manner.

PELL GRANT RECOMMENDATIONS FOR FY-82

1. Adjust the family size offsets using the same criteria that has previously been used, but modify the Annual C.P.I. percentage increase by factoring in the housing component as the average shelter costs rather than the homeowner's costs. This adjustment will ensure families that their incomes are being protected in "real" terms, but will produce a more gradual annual adjustment since housing costs will not be overstated due to currently high mortgage rates.

2. Establish a $1900 maximum award for the 1982-83 academic year. The maximum award has not been increased for the past three years, and consequently, each year over 200,000 students are dropped from eligibility. This trend must be reversed if we are to protect students who are enrolled at institutions where their Pell Grant cost of attendance is greater than $3500 per year. A maximum award of $1900 is still well below what the award should be in real terms if we had adjusted the amount annually to protect the grant's purchasing power since 1979.

3. Include all student Social Security and VA benefits as a student aid resource in the Pell Grant award calculation. This adjustment will reduce annual program costs and will eliminate the possibility of not counting all educational resources that a student may have to assist him in meeting his educational costs. It will also avoid duplication of Federal benefits.

4. Adopt graduated taxation rates for determining awards rather than the single flat rates which have been proposed. Modifying the statutes to allow the Secretary, in cooperation with the community,

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to submit a graduated series of assessment rates annually for Congressional review through the Family Contribution Schedules will ensure that program costs can be met while still providing a smooth progressive contribution schedule for all families which directs the largest benefits to those least able to pay for educational costs.

5. Adopt taxation rates for independent students which are higher than those used for dependent students. Need assessment procedures have always expected independent students to contribute more financially toward their educational expenses than toward the educational expenses of their children since they are the prime benefactors. In the past the Administration's proposals have expected more than three times as much from such students than from parents. Such a great disparity in expectations have caused hardships on independent students; however, we believe that some difference is reasonable and would suggest that the Secretary be given authority to establish a different schedule of assessment rates for independent students which would be reviewed annually.

6. Amend the law to eliminate the double counting which would occur if the cost of attendance standards and the family size offsets are used as described in the Educational Amendments of 1980. This provision refers to a technical oversight in the Education Amendments of 1980 which should be modified.

7. Establish a limit on the amount of home equity that is protected in the need analysis formula, or revise the way such equity is determined by collecting the purchase price of the family's home, the year purchased and then adjust for a reasonable rate of inflation. Similarly, some adjustment should also be made in the farm/business allowance to protect these families. We would suggest that all families receive a general asset protection allowance of $25,000 and that families who have a home be given an additional protection up to a $40,000 maximum. If farm/business assets are involved, the allowance should be increased to $75,000.

8. Use the cost of attendance standards adopted in the Education Amendments of 1980. Institutions should be able to determine reasonable costs for room and board charges and books, supplies, transportation, personal and miscellaneous expenses. Since cost of attendance increases have not changed in the Pell Grant Program since its inception nearly a decade ago, at a very minimum the books and supplies component should be increased to at least $600 and the living allowance for students not residing at home should be equal to those allowances that schools provide to students living in institutionally owned or operated housing.

9. Eliminate the provision in the cost of attendance standards which provides for allowance of expenses associated with a handicap. While we recognize that many handicapped students incur additional costs associated with their disability, we believe that student aid funds should be used to cover normal educational expenses and that Vocational Rehabilitation funding or other similar programs should provide the additional dollars, if needed, to cover the other costs that might be incurred.

GUARANTEED STUDENT LOAN RECOMMENDATIONS

1. Impose a Family Income Loan Eligibility Index. Implementation of a Family Income Loan Eligibility Index would restrict eligibility for GSL interest subsidy based upon the student's family's ability to pay for postsecondary educational costs. Such an index could vary based upon the number of family members enrolled in postsecondary education on a half-time basis or more. The system could also allow a family above the index to undergo a formal needs test, and if such a test indicated that the student had remaining "need", then the student would be eligible for a subsidized loan. This approach would eliminate the need for a large number of GSL recipients from moderate income families from having to undergo a complicated needs test; help to prevent delays in processing GSL applications; eliminate unnecessary borrowing by high-income families; and restrict program costs and annual loan volume to a more realistic level. Such an approach is also easy for parents and students to understand and would be more acceptable to commerical lenders than the imposition of a needs test on all borrowers. Data collection

requirements would also be minimal.

The level of income that is used in the Loan Eligibility Index will determine how much money can be saved and the size of the potential pool of borrowers. For example, if a straight $25,000 ceiling was adopted, as was used in 1978, the potential pool of borrowers would be reduced by 50%. If a $25,000 ceiling was adopted with borrowing allowed above that level for students with remaining need, the loan volume would be reduced by 35% over current figures. On the other hand, if a $35,000 ceiling was adopted with borrowing allowed above that level for students with remaining need, volume would be reduced by 26% in FY-82 over FY-81.

Given the critical financial support that is provided to families by the Guaranteed Loan Program and in the absence of an operative, widely available parent loan program, we feel that any measure which reduces loan volume by more than 20% will have very negative effects upon enrollment patterns and students' selection of institutions.

2. Count Student Social Security and Veterans Benefits as Student Aid for Determining GSL Eligibility. Currently student Social Security and Veterans Benefits are treated as family income in determining GSL eligibility rather than as student aid. If these benefits, which are given to students to attend postsecondary educational institutions, were counted as student aid, many students would have their loan eligibility reduced.

   As in S.1108, we would require the institution to include VA and/or Social Security Benefits on all GSL applications as other student aid.

3. Eliminate the Six-Month Grace Period Following Deferment Periods. The Education Amendments of 1980 added a new six-month grace period following deferment periods. In the past, students have always begun repayment immediately following deferment periods. We do not believe that this additional grace period is necessary and for those few cases in which students experience a hardship, the lender can exercise forebearance.

4. Eliminate the Higher Loan Limits for Independent Students. The Education Amendments of 1980 included a provision which allows independent students to borrow $500 more per year under the maximum GSL amount than

dependent students. This distinction was made in an effort to provide independent students with additional credit since they would not be eligible to participate in the Parent Loan Program. While such a goal may be admirable, during a time of constriction, we would suggest that this provision be eliminated. Elimination of this separate distinction will reduce the amount of data to be collected to determine the student's status; relieve administrative burdens on lenders and institutions in trying to monitor changes in a student's status; and it also constrains growth in GSL volume and subsidies.

5. Modify the Terms of the Parent Loan Program. The Parent Loan Program was enacted in the Education Amendments of 1980 primarily as a means of enabling parents to help pay for part of the educational costs of their children, thereby keeping a student's loan burden to a minimum. We support this concept, particularly for those students who are enrolled in higher cost institutions. We would support increasing the interest rate in the Parent Loan Program to 12% or 14% and have the government pay a special allowance on the difference to cover the cost of money.

6. Provide Incentives for Students to Repay Their Outstanding Loan Principal Through Early Repayments. Under the current structure of the GSL Program, there is no incentive for the student to repay his loan more quickly. Long-term program costs could be reduced if borrowers took less time to repay their loans. One way to encourage borrowers to repay loans is to discount the amount of loan principal for early repayments. Students who obtain a higher paying job might be willing to repay more quickly if they had an added incentive. Likewise, parents and the student's employers might also be encouraged to help the student repay the loan more quickly if there was an incentive. The amount of the discount would have to be studied carefully to ensure real savings to the government and still provide some benefit to the student. Kenneth Reeher, Executive Director of the Pennsylvania Higher Education Assistance Agency, has suggested three alternatives which might be workable. His suggestions include: (1)Discounting the loan by 30% of the principal for full repayment upon or within 30 days of graduation or withdrawal from school; (2)Discounting the loan by 20% of the principal for full repayment at the end of the grace period; and (3)Discounting the loan by 15% of the

remaining principal for full repayment by the end of one year in repayment status. We would endorse this concept and would urge Congress to explore it carefully.

While other changes have been proposed, we feel that most of these will negatively impact the available supply of loan capital or will be impossible to implement in time to achieve savings next year.

One remaining suggestion which we have that could achieve the FY-82 savings without altering the program significantly would be to assess every borrower what might be called a Federal Loan Interest Provision or a Federal Loan Origination Provision of 10% of the value of their loan which would in turn go directly to the Federal Government to help defer the program costs. In other words, if a student borrowed $500 then $50 would go to the government where on a $2500 loan, a $250 fee would be paid. We realize that this approach would add to the student's total debt; however, it is not nearly as onerous as removing the total in-school interest benefits or having the student repay the in-school interest benefits through accruing and compounding.

The additional cost to a student would be about one-fourth as much as if you eliminated the in-school interest subsidy and made the student pay it. Such a fee might also discourage some students who really don't need the full amount allowable from borrowing it.

This provision might be used in the short run to help save Federal outlays while interest rates are high, and could be removed later when interest rates subside. Such an approach would also not require the basic GSL Program structure to be modified and would therefore not disrupt a major credit system that is dependent upon private capital.

CONCLUSION

Having discussed most of the issues that you must face, let us conclude our testimony by again stating as we did in the beginning that in general, we support the goals that the Administration has outlined. We have suggested, however, several other methods which can be used to achieve similar ends.

The recommendations that we have made are based upon our extensive experience in administering these programs and working on a daily, face-to-face

basis with parents and students. They also represent a general consensus which is supported by all sectors of postsecondary education and partners involved in the delivery of student aid funds. This is not to say that there are not other ideas or methods which could be adopted. However, these recommendations are reasonable, cost-effective, understandable and will help to ensure that our nation's needy students will have the money they need to obtain their education.

We urge each of you, and your colleagues, to give serious consideration to these recommendations and we hope you will take these needs into consideration when you make final legislative changes to accommodate the budget. The financial investment you make in these programs will be an investment into this Country's future, and an investment into the future lives of millions of Americans. To clearly help illustrate this point and to show that parents are also concerned, we have included a letter on the next page which we received last week from a mother inquiring as to the future funding that will be available for the student aid programs. It is but one of many that are beginning to show up at schools across the country.

Your actions will provide the answer to this mother's concern.

Nashville, Tennessee 37216
May 5, 1981

RECEIVED
MAY 8

Richard L. Tombaugh, Program Director
Office of Student Financial Assistance
1319 M Street N. W., Suite 650
Washington, D. C. 20005

Dear Mr. Tombaugh:

I hope you will be able to answer some questions for me or forward this letter to someone that can help. I became very disturbed when I heard that the Guaranteed Student Loan was to be cut by the Reagan Budget. I did write letters to my Senators and Congressmen. I work in a guidance office so I have access to all the materials on financial aid. I have called the Financial Aid Office in Tennessee and also written to the Financial Aid Office at Abilene Christian University in Texas where my two children are in college. No one seems to know what the effect of the Reagan budget will be on this loan. My children use this loan and we still pay about $4,500 more a year for college expenses. We do have an income of over $30,000 a year, but it would be very difficult to pay all their college expenses in one year and still live. We have every intention of paying the loan for them and are making plans to do so when it becomes due after they are out of school. They have already applied for the loan for the 1981-82 school year. It is difficult to plan our finances since we do not know if it will be available. I doubt we can send both of them if the loan is not available to us. We are now saving all we can and trying to get our financial situation to where we will be able to pay for one of them and to help the other one some. Here are some of my questions:

1. Since all the materials have been sent out on Financial Aid for 1981-82 school year, will it be changed for this school year if the budget passes. I am speaking on the various pamphlets and the booklet "Five Federal Financial Aid Programs, 1981-82. I know many of our students at my school already have this book and are planning on using the Financial Aid Programs listed in the booklet.

2. If we cannot get the Guaranteed Student Loan for them, will the new loan for parents still be available? Can you make small payments on that loan since you will have to start paying it back while they are still in college.

Any information you can give me will certainly be appreciated. If we could use this loan for one more year, I believe we will be able by planning and if everyone stays healthy to make it for the other two years. Needless to say, this is very upsetting to us since it seems to hurt the middle income family that wants to work and pay their way. I know we will make it, but it is sure going to be difficult if it is not availabe for this year with no time to plan and budget. Thank you for any answers you can give.

By the way, our income comes from my husband working 3 jobs - a fireman, a security manager for a department store and an auctioneer. I work outside the home and both children have summer jobs, my son also works during the school year. We are trying to give our children an education in a good Christian school where they are happy and we hope become productive citizens. It seems we are being penalized for working hard.

Sincerely,

SUPPORTING AND COMPARATIVE DATA

TABLE I Comparison of Family Size Offsets That Are Used In The Uniform Methodology For 1981-82 With Those Proposed By The Administration For Use With The Pell Grant Program

TABLE II Summary Of Annual Budgets For A Four-Person Family At Three Levels Of Living, Urban United States, Autum 1979

TABLE III Indexes Of Comparative Costs Based On A Lower Budget For A Four-Person Family

TABLE IV Effects of Eliminating The GSL "In-School" Interest Subsidy And Allowing The Interest To Accrue And Compound

TABLE V Guaranteed Student Loan Program Information On Program Participants

TABLE VI Guaranteed Student Loan Program Interest Subsidy and Special Allowance

TABLE VII Growth In Interest And Special Allowance Costs In The GSL Program

TABLE I

Comparison of Family Size Offsets that are used in the Uniform Methodology for 1981-82 with those Proposed by the Administration for use with the Pell Grant Program

Family Size (including the applicant)	Uniform Methodology Allowance	Administration's Proposal for Pell Grants	Difference
2	$ 7,050	$ 5,000	-$2,050
3	8,790	6,050	-2,740
4	10,850	7,700	-3,150
5	12,800	9,050	-3,750
6	14,970	10,250	-4,720
7	16,660	11,350	-5,310
8	18,350	12,550	-5,800
9	20,040	13,750	-6,290
10	21,730	14,850	-6,880

TABLE II

Summary of Annual Budgets for a four-person family at three levels of living, Urban United States, Autumn 1979.

	Budget Level		
	Lower	Inter-mediate	Higher
Total budget	$12,585	$20,517	$30,317
Total family consumption	10,234	15,353	21,069
Food	3,911	5,044	6,360
Housing	2,409	4,594	6,971
Transportation	1,004	1,851	2,411
Clothing	866	1,235	1,804
Personal care	323	433	613
Medical care	1,171	1,176	1,227
Other family consumption	550	1,021	1,684
Other items	539	877	1,478
Social security and disability	781	1,256	1,413
Personal income taxes	1,032	3,031	6,357

Note: Because of rounding, sums of individual items may not equal totals.

Source: Data provided by United States Department of Labor Bureau of Labor Statistics - Date: April 30, 1980

TABLE III

Indexes of Comparative Costs Based on a Lower Budget for a 4-Person family, Autumn 1979

AREA	TOTAL BUDGET	COST OF FAMILY CONSUMPTION												PERSONAL INCOME TAXES
		TOTAL CONSUMPTION	FOOD		HOUSING		TRANSPORTATION 1/		CLOTHING	PERSONAL CARE	MEDICAL CARE 2/	OTHER FAMILY CONSUMPTION 3/	
			TOTAL	FOOD AT HOME	TOTAL 4/	RENTER 5/	TOTAL	AUTOMOBILE OWNERS					
URBAN UNITED STATES	100	100	100	100	100	100	100	100	100	100	100	100	100
METROPOLITAN AREAS 6/	101	101	101	101	103	95	104	98	100	102	103	104	103
*NONMETROPOLITAN AREAS 6/	95	96	94	96	94	89	123	90	98	89	88	83	87
NORTHEAST:													
BOSTON, MASS.	108	106	102	104	115	120	108	138	108	101	92	111	138
BUFFALO, N.Y.	99	98	101	102	92	90	103	107	122	94	82	100	100
NEW YORK-NORTHEASTERN, N.J.	103	102	107	107	100	101	84	107	91	108	103	110	115
PHILADELPHIA, PA-N.J.	102	98	110	107	89	89	91	113	73	94	103	104	140
PITTSBURGH, PA.	99	97	102	102	92	90	98	100	93	99	89	98	119
*NONMETROPOLITAN AREAS 6/	99	98	99	101	92	90	134	99	103	82	90	78	99
NORTH CENTRAL:													
CHICAGO, ILL.-NORTHWESTERN IND	102	102	104	105	101	103	99	123	92	101	107	111	105
CINCINNATI, OHIO-KY.-IND.	98	98	104	105	86	85	89	92	115	94	95	103	101
CLEVELAND, OHIO	100	100	102	99	92	91	96	101	106	127	100	107	95
DETROIT, MICH.	100	98	101	100	90	92	96	97	96	105	109	102	114
KANSAS CITY, MO.-KANS.	97	98	100	99	88	86	99	99	107	121	97	102	9[illegible]
MILWAUKEE, WIS.	101	100	98	97	101	103	95	96	112	111	96	103	114
MINNEAPOLIS-ST. PAUL, MINN.	102	100	103	103	101	103	94	97	101	111	88	110	116
ST. LOUIS, MO.-ILL.	99	99	107	109	91	88	100	105	95	103	89	103	98
*NONMETROPOLITAN AREAS 6/	97	98	95	98	100	99	118	87	108	93	84	85	93
SOUTH:													
ATLANTA, GA.	92	94	95	94	87	80	93	93	108	104	91	102	73
BALTIMORE, MD.	101	99	93	92	109	108	95	97	96	97	102	101	131
DALLAS, TEX.	93	96	94	90	93	92	93	95	92	106	108	101	63
HOUSTON, TEX.	96	99	97	96	91	87	91	94	107	113	118	97	70
WASHINGTON, D.C.-MD.-VA.	108	105	101	101	118	122	97	97	91	105	107	113	183
*NONMETROPOLITAN AREAS 6/	89	91	91	92	84	73	118	87	88	88	87	83	66
WEST:													
DENVER, COLO.	99	100	99	100	92	88	99	102	137	90	92	102	96
LOS ANGELES-LONG BEACH, CALIF.	106	108	100	98	119	126	107	110	100	98	127	94	93
SAN DIEGO, CALIF.	103	105	98	[illegible]	111	117	101	103	102	101	123	99	85
SAN FRANCISCO-OAKLAND, CALIF.	111	111	104	106	124	131	106	114	111	117	118	101	103
SEATTLE-EVERETT, WASH.	111	112	101	100	132	138	102	105	119	118	110	106	101
HONOLULU	131	123	129	135	140	146	101	107	108	116	107	114	215
*NONMETROPOLITAN AREAS 6/	108	105	98	100	118	122	128	94	112	90	93	83	134
ANCHORAGE, ALASKA	156	151	128	131	201	209	173	128	118	125	161	103	217

Source: United States Department of Labor, Bureau of Labor Statistics

Footnotes for Table III

1/ The family consists of an employed husband, age 38, a wife not employed outside the home, an 8-year-old girl, and a 13-year-old boy.

2/ As defined in 1960-61. For a detailed description of these and previous geographical boundaries, see the 1967 edition of Standard Metropolitan Statistical Areas, prepared by the Office of Management and Budget.

3/ Places with population of 2,500 to 50,000.

4/ Housing includes shelter, housefurnishings and household operations. The higher budget also includes an allowance for lodging away from home city.

5/ Renter costs include average contract rent plus the cost of required amounts of heating fuel, gas, electricity, water, specified equipment, and insurance on household contents.

6/ Homeowner costs include interest and principal payments plus taxes; insurance on house and contents; water, refuse disposal, heating fuel, gas, electricity, and specified equipment; and home repairs and maintenance costs.

7/ The average costs of automobile owners and nonowners in the lower budget were weighted by the following proportions of families: Boston, Chicago, New York and Philadelphia, 50 percent for both automobile owners and nonowners all other metropolitan areas, 65 percent for automobile owners, 35 percent for nonovners; nonmetropolitan areas, 100 percent for automobile owners. The intermediate budget proportions are: Boston, New York, Chicago, and Philadelphia, 80 percent for owners, 20 percent for nonowners; Baltimore, Cleveland, Detroit, Los Angeles, Pittsburgh, San Francisco, St. Louis, and Washington, D.C., with populations of 1.4 million or more in 1960, 95 percent for automobile owners and 5 percent for nonowners; all other areas, 100 percent for automobile owners. The higher budget weight is 100 percent for automobile owners in all areas.

8/ In total medical care, the average costs of medical insurance were weighted by the following proportions: 30 percent for families paying full cost of insurance, 26 percent for families paying half cost; 44 percent for families covered by noncontributory insurance plans (paid by employer).

9/ Other family consumption includes average costs for reading, recreation, tobacco products, alcoholic beverages, education, and miscellaneous expenditures.

TABLE IV

Effects of Eliminating the GSL "In-School" Interest Subsidy and Allowing the Interest to Accrue and Compound

The following three examples illustrate the additional costs a student would face if the 9% in-school interest subsidy, which is now paid by the government, was eliminated and instead the interest is allowed to accrue and compound annually and subsequently added to a student's outstanding loan obligation.

Example I Student borrows $1000 for each of his four years as an undergraduate student.

TOTAL AMOUNT BORROWED = $4,000.00 INTEREST RATE = 9%

Assumes a 7 year Equal Installment Payment	Current Law	Administration's Proposal	Difference
Total Amount to be repaid	$5406.24	$6865.32	+$1459.08
Monthly Repayments	$ 64.36	$ 81.73	+$ 10.13

Example II Student borrows $2500 for each of his four years as an undergraduate student.

TOTAL AMOUNT BORROWED = $10,000 INTEREST RATE = 9%

Assumes a 10 year Equal Installment Payment	Current Law	Administration's Proposal	Difference
Total Amount to be repaid	$15,201.60	$19,305.60	+$4104.00
Monthly Repayments	$ 126.68	$ 160.88	+$ 34.20

Example III Student borrows $2500 for each of his four years as an undergraduate student, plus $5,000 for two years as graduate student.

TOTAL AMOUNT BORROWED = $20,000 INTEREST RATE = 9%

Assumes a 10 year Equal Installment Payment	Current Law	Administration's Proposal	Difference
Total Amount to be repaid	$30,402.00	$39,979.20	+$9577.20
Monthly Repayments	$ 253.35	$ 333.16	+$ 79.81

TABLE V

GUARANTEED STUDENT LOAN PROGRAM INFORMATION ON PROGRAM PARTICIPANTS

LENDERS

Approximately 20,000 commerical lenders, most of which are national and state banks

- 14,000 participate in the state and non-profit guarantee agency program (and to some degree in the federal program)
- 6,000 participate strictly in the federal program

Approximately 135 educational institutions also participate as lenders

As of November 1980, about 1,020 lenders had signed agreements to make mutiple disbursed loans (about one-half were state banks; relatively few were large lenders)

SCHOOLS

7,500 institutions eligible to participate

- about 3,500 are 2 or 4 year traditional degree granting institutions
- about 4,000 are vocational, technical, nursing, and other non-degree granting institutions

About 800 foreign schools are eligible to participate in GSL

STATE AND NON-PROFIT GUARANTEE AGENCIES

26 were established prior to October 1, 1976 representing about 50% of total GSL loan volume ($) at that time

Since October 1976, and passage of the 1976 amendments which provide certain financial incentives to create state agencies, 23 more have been established bringing current total to 49 plus United Student Aide Funds, Inc. (USAF). State agencies currently represent about 90% of new loan volume ($). It is anticipated that all 50 states and outlying territories will have state agency programs by the end FY-81 with possible exception of Puerto Rico.

11 are non-profit agencies

17 have direct lending programs

BORROWERS

As of September 30, 1980, almost 15 million loans had been made in the GSL program totaling over $21 billion

About 52% was still outstanding; the rest had been paid to the lender by the borrow or had been paid as a claim

About 60% of the total outstanding has not entered repayment status and therefore subject to interest payments

Source: Office of Student Financial Assistance, December 1980

TABLE VI

GUARANTEED STUDENT LOAN PROGRAM INTEREST SUBSIDY AND SPECIAL ALLOWANCE

Payments for interest benefits and special allowance currently represent about 70-80% of total program costs. Since payments are mandated by law and are based upon prevailing interest rates, these costs are virtually uncontrollable.

Interest Subsidy

OE pays lenders the interest that accrues during the in-school, 6-month grace period and authorized deferment periods for eligible students. Parent loans are not eligible for interest subsidies.

Lenders bill OE at least annually for the aggregate interest subsidy due on eligible loans in their GSL portfolio although the vast majority bill quarterly.

Special Allowance

Special allowance rate for each quarter is based on one of four statutory formulas:

A) For loans with a 7% interest rate or less, treasury bill rates less 3.5% rounded up to the nearest 1/8% and divided by 4

B) For loans with an 8% interest rate, treasury bill rates less 4.5%, etc.

C) For loans with a 9% interest rate, treasury bill rates less 5.5%, etc.

D) For loans made or purchased by a holder who obtains its funds from the sale of tax exempt revenue bonds, the rate shall be 1/2 of the rate stated above except that a minimum rate is established of not less than 2.5% in the case of 7% loans, 1.5.% in the case of 8% loans, and .5% in the case of 9% loans.

Special allowance is based on the average unpaid balance of all outstanding loans.

Lenders bill for special allowance at the same time and on the same form for interest.

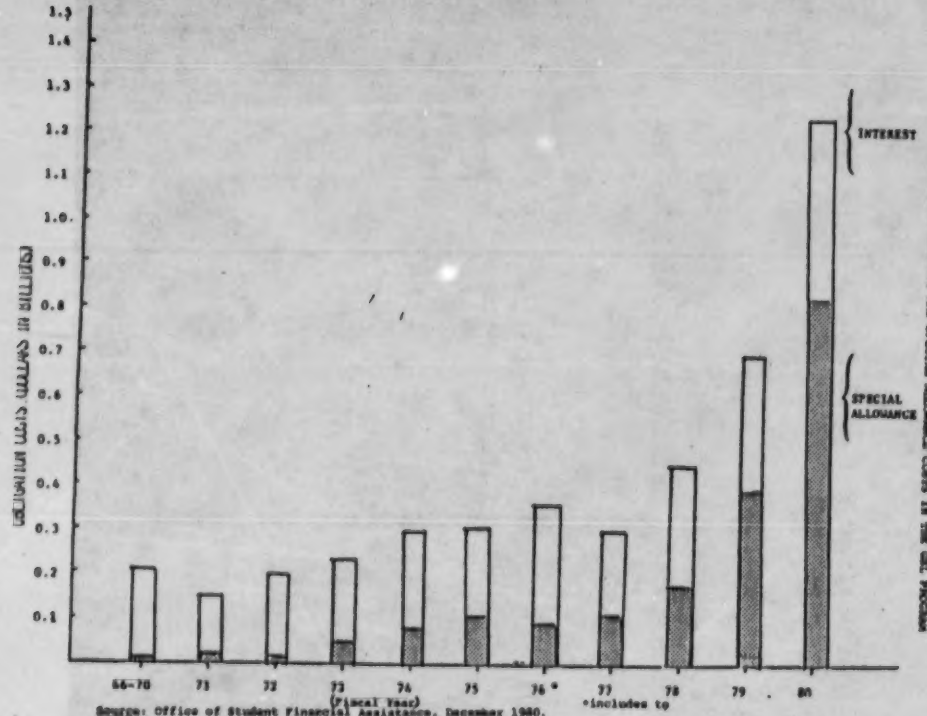
Penalty Interest

OE must pay daily penalty interest if interest subsidy and special allowance requests are not approved by the Education Department within 30 days from the receipt of valid billings from lenders. As of the end of November, 1980, a total of about $440,000 in penalty interest has been paid.

Multiple Disbursement Provision

Approved lenders can bill on total amount even though only portion of loan disbursed.

Source: Office of Student Financial Assistance, December 1980



GROWTH IN INTEREST AND SPECIAL ALLOWANCE COSTS IN THE GSL PROGRAM

TABLE VII

Source: Office of Student Financial Assistance, December 1980.

SUPPLEMENTAL STATEMENT

OF

THE NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

BEFORE THE

SENATE SUBCOMMITTEE ON EDUCATION, ARTS AND HUMANITIES

PRESENTED BY

GENE S. MILLER, PRESIDENT

MAY 11, 1981

As President of the National Association of Student Financial Aid Administrators and as Director of Financial Aid at Pasadena City College, we would like to associate ourselves with comments made this morning and especially to relate some of these comments to the realities on the campus.

Specifically, we would like to address the:

1) $750 self-help expectation in S.1109;
2) cost of attendance deferral;
3) proposed reductions that seem appropriate.

S.1109 would add an additional self-help expectation which would reduce Pell Grant eligibility.

In reality, students at most institutions across the country already have a student contribution of at least $900. All public institutions in California have adopted this expectation as a minimum. The independent colleges require students to contribute $1700 or more. Proprietary schools usually require all costs above the direct educational costs to be met through some type of self-help program.

The stated objective in the Higher Education Amendments of 1980 was to achieve a financial aid package of 75% gift aid and 25% self-help and parent contribution.

In California where student budgets have been standardized at most institutions in cooperation with the Student Aid Commission, the student self-help contribution in the aid package currently ranges from a low of 23% to a high of over 80%.

The student with the lowest self-help expectation is the dependent commuter student at a low cost school. Usually this student is from the lowest income family and has the fewest resources to meet need. Yet this student's aid package will be over 50% in self-help.

This same student is also limited by the Cost of Attendance provisions to a maximum Pell Grant of $750.

The deferral of the Cost of Attendance provisions impacts most severely those non-traditional students attending low cost colleges and results in a self-help expectation up to 80%.

This student is typically an older returning student, or a head of household. A smaller percentage of these students are married.

For 1981-82 at the 107 community colleges in California, for example, the actual costs of attendance will range up to $4600 for single independent students and up to $7600 for heads of households and married students.

The Pell Grant cost of attendance limitations, however, hold these budgets to $1500, the same as for a dependent student living at home.

This means that the maximum Pell Grant award is $750 whether the student lives with parents, on his/her own, or has children and or a spouse.

This creates an inequitable aid packaging situation that is increasing annually since the cost of attendance provisions have never been adjusted from the inception of the program in 1972.

This situation will be further exacerbated by maintaining maximum Pell Grants below the authorized level of $1900 for 1981-82 and $2100 for 1982-83.

Proposed changes which increase the assessment against income in the need analysis procedures add additional impact to the self-supporting student. Not only are his/her attendance costs not recognized, but his/her income is assessed at a rate double that of the parents of a dependent student.

The attached charts graphically indicate the cost problems and resulting inequitable packaging arrangements.

From the point of view of a practicing aid administrator, it is possible, however, to support some of the specific proposals in S.1108 to reduce program costs that will have a less devastating impact on truly needy students.

1) Counting VA benefits and social security benefits as 100% student aid eliminates a current inequity for students who do not receive such benefits and who therefore have lower aid packages and resources.
2) Using a remaining need formula above an income cap for Guaranteed Student Loans will reduce unnecessary borrowing at low cost schools.
3) Establishing a series of assessment rates on discretionary family income which we assume would be progressive would benefit the lowest income families by preserving funds that may currently be allocated to less needy students.

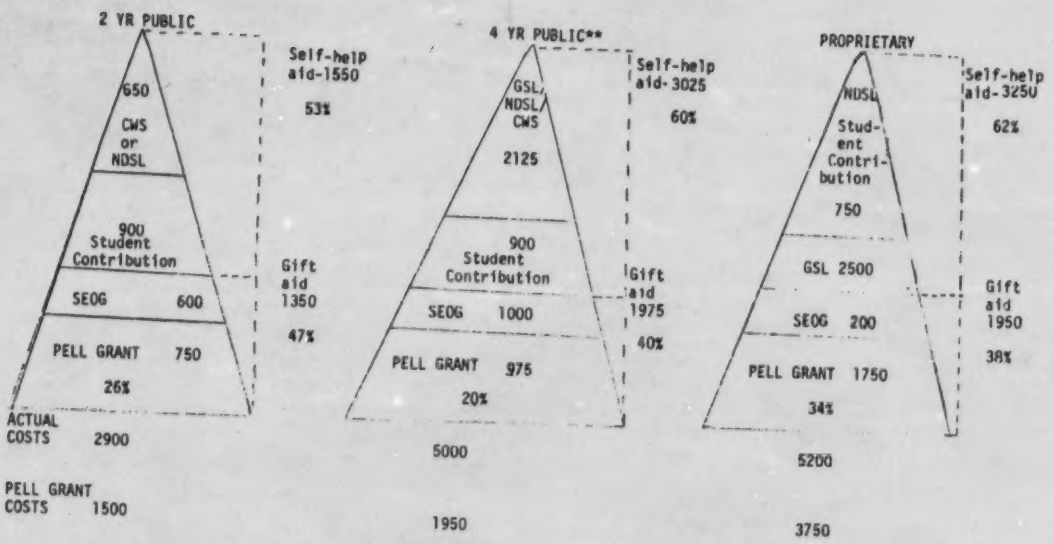
4) Increasing the parent loan interest rate to 14% would still make attractive loans available to parents with cash flow problems but not discourage their borrowing completely as S.1109 might.

5) Reducing the higher loan limit for self-supporting students will adversely affect those students with large unmet need but will reduce the administrative burdens of the program which are growing geometrically.

We appreciate the burden you face in reconstructing the Higher Education Amendments of 1980. We know you will continue as you have historically, to keep access to Postsecondary education open to the needy students of this nation.

Thank you for allowing us the opportunity to respond to the proposed legislation.

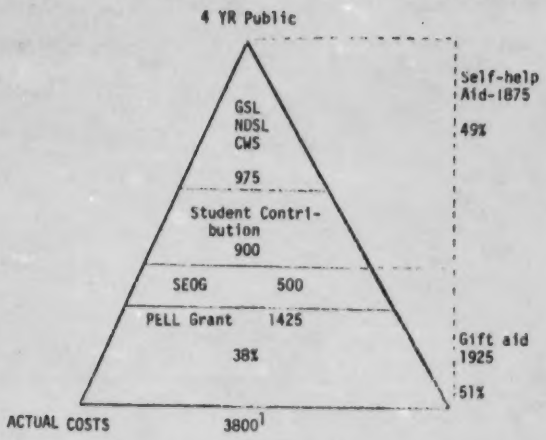
DEPENDENT COMMUTER*

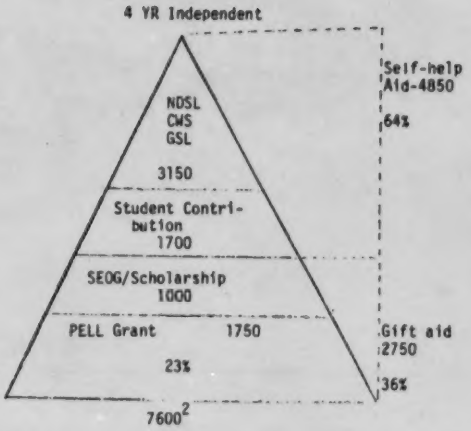


* Based on standard budgets for public institutions in California and average budgets for proprietary schools. State awards may replace SEOG.
Packages indicated are estimations. Actual awards (except Pell Grants) will vary from campus to campus depending on funds available and packaging philosophy. Assume 0 eligibility index for Pell Grant.

** Averages based on costs in University of California system and California State University and Colleges.

RESIDENT BUDGETS *





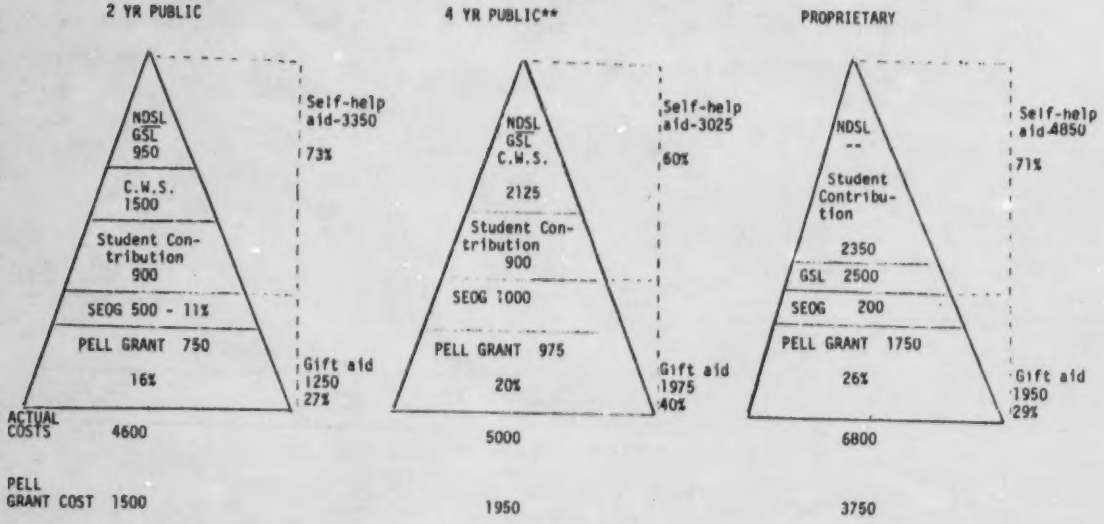
PELL Grant
Cost 2850

6600

[1]averages based on costs in University of California system and California State University and College system, including $450 for fees and $2000 for room and board.
State awards may replace SEOG or second loan.

[2]averages based on California independent college costs including $4000 for tuition/ fees and $2200 for room and board.

SINGLE OFF CAMPUS*

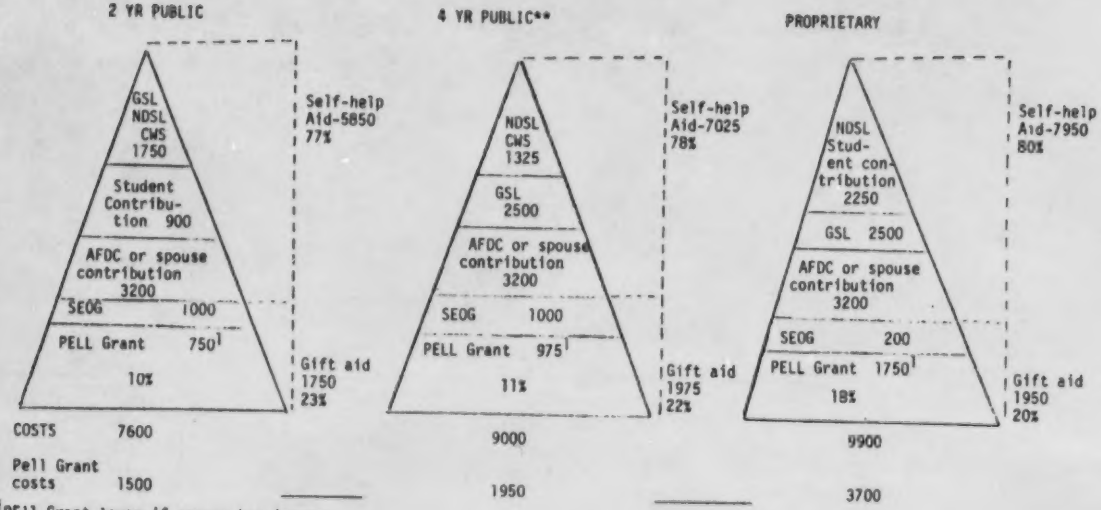


*Based on standard budgets for public institutions in California and average budgets for proprietary schools.

**Averages based on costs in University of California system and California State University and College system.

State awards may replace SEOG or second loan.

HEAD OF HOUSEHOLD/MARRIED BUDGETS*



[1]PELL Grant lower if spouse has income.

*Based on standard nine month budgets for public institutions in California and average budgets for proprietary schools.

**Averages based on costs in University of California system and California State University and College system.

Packages indicated are estimations. Actual awards (except PELL Grants) will vary from campus to campus depending on funding available and packaging philosophy. Assume 0 eligibility index for PELL Grants. State awards may replace SEOG.

Senator STAFFORD. Thank you very much. I feel constrained to remind myself and all of you that we are in a position where, if we do not comply with the directions of the full Senate, it will write this bill for us in a way that none of us may like as much as 1109. That is the unfortunate position that we are in.

Mr. Leifman?

Mr. LEIFMAN. Thank you, Senator.

Eduardo Wolle is going to present both of our statements for us.

Senator STAFFORD. However you wish to do it.

Mr. WOLLE. Thank you, Senator Stafford and Senator Randolph, for the opportunity to testify before this subcommittee.

We are representing various groups that you notice on our testimony and we would like to thank you on behalf of them. I am accompanied by Steve Leifman, who is the National Director of COPUS and he is just a recent graduate, just graduated on Sunday from American University, so he can tell you a lot of what it is like being a student firsthand.

There are some things that have not been pointed out that we would like to bring to the subcommittee's attention; specifically, what is happening in the Congress, in the House and the Senate.

We are concerned with the Senate budget figures that have appeared and also with what has happened on the House side. I hear your figures that indicate that you need $566 million. On the House, you need $700 million for student guaranteed loans. For the Pell grants, you would need in the Senate, under your bill here, $700 million. In the House you need $900 million. So somehow there seems to be more of a cut in what is happening here than we really can take.

Also, in the Senate Labor, Health and Human Services Committee, just recently, they requested a cut in the basic grants program of $270 million and this they wanted to achieve by cutting everybody's award by $100, which is really going to hurt a lot of the needy students and this, we feel, is absolutely uncalled for. These were cuts which were not requested by the administration and the committees; the subcommittees have gone even further in cutting that and that will make your job even more difficult.

I attended school in Vermont; I went to one of your institutions there, and I know what it is like, what the students are going through right now. They are in a panic.

Senator STAFFORD. You might as well identify the school.

Mr. WOLLE. Johnson State. Ed Elmendorf is the president there.

The students in Vermont and other places are in a panic because they do not know what they are going to do next year with the cutbacks that, as I mentioned, are being proposed and are coming up. We have outlined some of our concerns in our testimony, so we would not like to take up too much of your time.

With regard to the basic grant program, we are pretty much in concurrence with that aid we would like to bring up something else that is happening.

S. 1108 allows the Secretary to set the assessment rates for parental contributions. We believe this approach will cause further inequity in the amount a family must contribute to their child's education. Current law provides that families under $25,000 shall be assessed at 14 percent of their discretionary income. This means

that a family earning $8,500 would pay the same proportion as a family earning $24,000.

We concur with ACE and NASFAA in their request that language be added to provide for a graduated series of assessment rates. This provision would protect lower-income students and still maintain eligibility for several thousand middle-income students.

Another alternative which should also be considered is to keep the current law with a small addition. A provision could be included to allow the Secretary to request a waiver of the 14 percent rate. Congress would have the option to approve or disapprove the Secretary's waiver request.

This provision would place the burden of proof on the Administration to justify dollar savings. The Secretary would have to further justify the waiver request with up-to-date information as to the effect and impact on students receiving aid, which currently is not being done by the Secretary.

One last concern we would like to bring to the Subcommittee's attention also is the administration's proposed elimination of State and local tax offset in the fiscal year 1982 family contribution schedule. This proposal would in effect roll back eligibility to approximately a $19,000 family income as contrasted with the $25,000 eligibility level established by MISAA. The net result would be devastating; 600,000 students would lose their basic grants.

We are concerned with the student guaranteed loan program. We have outlined two options that the subcommittee should look into and we are very much concerned that, should the administration's proposals go through in States like Vermont, which has over 100 lenders, a lot of those banks would just not lend the money, and we did a quick survey in some of the banks in the United States, those that we could get a hold of; Mississippi and Alabama would not tell us bank names because they were afraid if we told them what was happening, they would drop out of the program. So we were not able to get names out of Alabama and Mississippi but the other banks concurred with what has been said here today.

You might as well kiss the guaranteed student loan program goodbye.

I would like to thank you for the time and the subcommittee's time and Senator Randolph.

Thank you.

[The prepared statement of Mr. Wolle follows:]

United States Student Association

The Merger of the U.S. National Student Association and the National Student Lobby

STATEMENT OF

EDUARDO WOLLE
LEGISLATIVE DIRECTOR

UNITED STATES STUDENT ASSOCIATION

ON S1108 AND S1109, PROPOSED CHANGES IN THE
PELL GRANT AND GUARANTEED STUDENT LOAN PROGRAM

BEFORE THE

SENATE EDUCATION SUBCOMMITTEE

MAY 11, 1981

ROOM 4232 DOOB

ON BEHALF OF

THE NATIONAL COALITION OF INDEPENDENT
COLLEGE AND UNIVERSITY STUDENTS (COPUS)

NATIONAL ORGANIZATION OF BLACK UNIVERSITY
AND COLLEGE STUDENTS (NOBUCS)

ASPIRA, INC.

MEXICAN AMERICAN LEGAL DEFENSE EDUCATION
FUND (MALDEF)

NATIONAL THIRD WORLD STUDENT COALITION (NTWSC)

Mr. Chairman, members of the subcommittee, I would like to thank you on behalf of the 3.5 million college and university students USSA represents, the students represented by COPUS (National Coalition of Independent College and University Students), ASPIRA which represents Hispanic students in cities throughout the East, Midwest and Puerto Rico, MALDEF (Mexican American Legal Defense Education Fund) which represents Hispanic (Chicano) students throughout the U.S., NOBUCS (National Organization of Black University and College Students) which represents 115,000 students at traditionally black postsecondary institutions, the NTWSC (National Third World Student Coalition) which represents third world (minority) students across the country, and the more than 7 million college and university students in the U.S. who receive some type of financial assistance, for the opportunity to testify on the Administration's proposals (S1109) and the Chair's proposals (S1108) to tighten eligibility and meet the requirements of the Senate Budget Resolution to reduce the costs of the Pell Grant and Guaranteed Student Loan Programs. Accompanying me today is Steve Leifman, National Director of COPUS.

The Administration has the American public believing that a "safety net" exists which will prevent any of those in need from losing out on their opportunity to gain access to a higher education. It is vitally important that the American people realize that there are gaping holes in this net. The burden of financing a college education is being dumped on the family at a time when the family can hardly afford an added cost on it's already strained budget. Reductions proposed by the Administration and the means to achieve those reductions will result in over one million middle income recipients losing funding from the Basic Grant and GSL programs. Reductions in the value of awards to all lower income students will force many to reevaluate their quest for a college education and limit their choice to low cost publicly subsidized institutions. This will place a tremendous burden on already strained state coffers.

We are concerned with the impact of the proposed Administration's budget reductions and the effects of those reductions will have on the cost, quality and access to postsecondary education across the nation. Should the administration's proposed changes pass on top of the FY'82 budget passed by the House, we will see a high drop out rate, unemployment and increases in tuition. Even if the Administration means well, the results may be disastrous.

We, as students, are concerned with the possibility that if Congress accepts the Administration's budget reduction proposals, all the advances that have been made in meeting the needs of the middle class through MISAA, in providing easier access to college for lower income students, in stabilizing the loan programs and in allowing a healthy competition between the public and private sector to develop will have been an exercise in futility. There are many advantages to living in this society that are not available to other people throughout the world. However, when other countries are giving their people a chance to receive a fully subsidized postsecondary education, this country is retreating on it's commitment to provide access to all of it's citizens. How can a nation expect to be number one in anything if it's working masses buy into a system yet are told that their investment is being cut and their return will be minimal? How much more can the poor be expected to sacrifice when they are living in areas where unemployment is high?

In the state of Vermont, for instance, the Vermont State Colleges Board of Trustees has voted to raise tuition by 12%. This means that a student at one of the three four year state campuses will have to pay $130 over this year's tuition. At Vermont Technical College, tuition will also increase, but by $180. At the Community College of Vermont, tuition will be up by 13%. The University of Vermont will also experience an increase in tuition. For an in-state student, tuition will be increased by 13.6% or from $1650 in '80-'81 to $1350 for the '81-'82 academic year. The out-of-state student will have an increase of 11% or an increase from the present $4560 to $5062. Also inceasing at the University is the cost of room and board from $1996 to $2272.

In a state like Vermont where every Federal dollar counts, the proposed reductions in financial aid and the proposed Administration's changes would have a devastating affect on the state share to higher education. In states like North Carolina and Alabama, though different from Vermont in many ways, the same holds true, the state and

taxpayers would be expected to contribute more towards higher education and carry the burden of the loss in Federal dollars.

Pell Grants - The Pell Grant program (formerly BEOG) is the cornerstone of Federal financial aid. The typical financial aid package consists of Pell Grant, Supplemental Educational Opportunity Grant (SEOG), National Direct Student Loan (NDSL), and College Work Study (CWS). When a student has CWS as an award, they are already working in a part-time job. By requesting a student to provide $750 self-help, they will be forced to find another part-time job off campus or compete for higher wage jobs during the summer. If the student cannot find a job and he/she is dependent, the parent would be forced to come up with $750 more above the parental contribution. Often times, this is virtually impossible since parents' assets and income have already been calculated in the need analysis process. For independent students, the situation is equally if not more bleak. The independent student must earn $750 either in a summer or part-time job in off campus work. Independent students tend to be non-traditional, usually someone who stopped their education after high school and now would like to continue their higher education. These students may already have a job and possibly a family to look after. Due to the high rate of unemployment and inflation, it is unrealistic to expect an independent student, or any student, who currently had to contribute $300 of self help for college to suddenly have to pay $750 more. There are no assurances either that employment will be available for all students during the summer break.

When we consider that youth unemployment is high, especially among blacks and latinos, such a provision will only help to increase the gap between those who can afford an education and those who cannot. Youth unemployment has already reached 19% with a minority youth unemployment rate in excess of 50% in inner cities. Nationwide we are experiencing a dropout rate of 25%, and in some cities that figure is double.

It's not that students are all abusing Federal student aid and are not trying to make ends meet. For example, during a recent hearing before the House PostSecondary Education Subcommittee, a student at Yale University, Bill Lash, explained his situation:

> "I have not neglected to help myself. During the academic year, I hold three jobs. I am a reasearcher-clerk, American Express agent and a bartender. My sister has done the saem, working as a dormitory guard, a botany teacher and waitress. We normally work during our spring, winter and summer vacations, and have done all of this while carrying full course loads and maintaining B plus grades."

What will the Administration's proposals do to him? And what of a student who can barely maintain a C average and is already working a job at subminimum wage to go to college? Just because Bill can balance his job doesn't mean that every other student is going to be able to do the same or even maintain one job at the expense of their studies. Isn't the reason students go to college but to learn and to prepare themselves for the future? If you want students to work, then expand the funding for the College Work Study program!

We concur with the observations and recommendations which ACE and NASFAA have presented in regard to the Pell Grant program. We would like to stress several points which are of concern to us though. It is difficult to attempt to retune programs, such as the Pell Grant and Guaranteed Student Loan, which have generally accomplished their purpose. We commend Senator Stafford and his staff for their concerns as expressed in S1108.

We are distressed to see that S1108 would repeal some of the important reforms dealing with independent students as passed in the Middle Income Student Assistance Act and the Higher Education Amendments of 1980. We cannot and will not support any attempts to weaken these reforms, thereby returning to a system which does not make allowances for the differences between independent and dependent students. We would also like to see the continuation of current provisions dealing with asset exclusion and taxation, subsistence allowance for single independent students, and the status of married independent students.

We are also concerned with the provision in S1108 dealing with the assessment of parental discretionary income in determining the expected family contribution. This year, complications beset the processing of the Basic Grant applications. They were virtually held hostage until the Administration's family contribution schedule was adopted. What complicated matters was that the previous Administration regulations had already been published and comments received. These were pulled by the present Administration and the present regulations now stand. Millions of student applications were held up for processing. Students may not know what their awards will be until later than June. Had Congress and the higher education community not capitulated to the Administration's insistance that their regulations be implemented, students may not have received their award notices until August! This would have ruined many a student's plans to attend college since most colleges need to know by May whether a

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student will attend or not. Students base their acceptance on their financial aid awards.

In order to avoid repeat of this unfortunate incident, we recommend that language be included to allow Congress to approve or disapprove aid regulations. Currently, Congress can only disapprove such regulations. If the current law remains unchanged, we may continue to see interruption of Pell Grant processing by this and possibly future Administrations.

S1108 seeks to allow the Secretary to set the assessment rate for parental contribution. We believe this approach will cause further inequity in the amount a family must contribute to their child's education. Current law provides that families under $25,000 shall be assessed at 14% of their discretionary income. This means that a family earning $8,500 would pay the same proportion as a family earning $24,000.

We concur with ACE and NASFAA in their request that language be added to provide for a graduated series of assessment rates. This provision would protect lower income students and still maintain eligibility for several thousand middle income students.

Another alternative which should also be considered is to keep the current law with a small addition. A provision could be included to allow the Secretary to request a waiver of the 14% rate. Congress would have the option to approve or disapprove the Secretary's waiver request.

This provision would place the burden of proof on the Administration to justify dollar savings. The Secretary would have to further justify the waiver request with up to date information as to the effect and impact on students receiving aid, which currently is not being done.

One last concern we would like to bring to the subcommittee's attention (though we have many more) is the Administration's proposed elimination of state and local tax offset in the FY'82 family contribution schedule. This proposal would in effect roll back eligibility to approximately a $19,000 family income as contrasted with the $25,000 eligibility level established by MISAA. The net result would be devastating, 600,000 students would lose their Basic Grants.

Guaranteed Student Loan - The origin of the GSL program in 1964-1965 stemmed from the intense desire of the Administration to derail tuition tax credits. It was the Treasury Department which espoused the idea of loans for middle-income families. Today, we often find lower-income students burdened with a GSL. We believe that this is an improper method of financing a higher education for lower-income students. This method simply serves to shift the burden of cost from the government to the student.

During the floor debate on the Higher Education Act of 1965, Congresswoman Edith Green of Oregon, former chair of the House Postsecondary Education Subcommittee, remarked that the GSL program:

"Is designed especially for those students who come from middle-income families. This is a separate loan program," she continued, "and is designed for those students who do not qualify for the National Defense Education Act Loans (now National Direct Student Loans) because they come from families that have a higher income and therefore they would be ineligible for National Defense Education Act Loans."

A large portion of the growth in the GSL program can be attributed to the removal of the income cap in 1978 with the passage of MISAA, which resulted in increased demand for these monies. However, it is not primarily this demand which quadrupled the cost of the program to the Federal government. It is the skyrocketing interest rates and the high cost of money to which the program is tied that increased its costs.

The following chart illustrates how the special allowance (the Federal money paid to banks) has quadrupled compared to the increase in the amount of money paid for the student's in-school interest subsidy.

*Guaranteed Student Loan Subsidy Costs
(millions of dollars)

	1977	1978	1979	1980	1981
In-School Interest Subsidy	$225	$249	$296	$445	$665
Special Allowance	106	195	401	820	1,460
Average Annual 91-day Treasury Bill Rate (%)	5.0	6.8	9.6	11.6	14.2

In addition, contrary to statements which have received great publicity around the country, students are not in high default in this loan program. The estimated default

*Congressional Research Service, February 20, 1981.

rate for 1981 is approximately 8.8% compared to last year's 9.4%.

The Administration calls for the elimination of the in-school interest subsidy on student loans which is paid on behalf of the borrower by the government. We categorically oppose the repeal of the interest subsidy. The interest subsidy is a regulation that college costs have become increasingly burdensome to all American families.

We believe that eliminating the interest subsidy would shift the higher costs that result from higher interest rates to the student, at a time when the student may not be able to cope with such added costs. This will lead to higher default rates and delinquencies.

An example of what a student would pay now and under the Administration's plan:

$7,500 9% interest with in-school interest subsidy and 10 year repayment - $11,000
$7,500 9% interest no subsidy - $13,000

A group which would be adversely affected by these changes is the graduate students. In a survey of 108 members of the 1978-79 senior class at the University of Pennsylvania School of Dental Medicine who utilize the Financial Aid Office at the dental school, the total debt amassed by these students upon graduation was found to be $2,823,391, an average of $26,142 per student! The smallest debt reported by a respondent to this survey was $15,905, with the other debts ranging as high as $44,880! Incoming first year students can only expect larger debt burdens upon graduation. It's bad enough that students must assume large loan burdents in the first place. Asking them to pay significantly higher levels of interest is creating a generation of indentured servants who are mentally mortagaged to the government.

A suggestion that has been made is to defer the interest while the student is in school. The government would pay the interest while the student is in college. The interest would be added on to the amount owed by the student and he/she would repay this to the bank, which would presumably repay the Department of Education. We cannot accept this alternative either. First, the problem of excessive debt will still exist. Second, the administrative headaches this will cause banks will drive them out of the program. They would have to keep separate accounts of these deferred interest payments,

accrue and compound interest, and then submit payment to the Department of Education. Since the red tape and complicated paperwork have kept banks out of the program, this approach would only worsen the problem.

S1108 rejects either of these approaches. We realize that everyone is being asked to sacrafice and that changes will be made in this program with or without us commenting. We are concerned that if changes are to be made that they be made with the skill of a surgeon not a butcher.

ACE has already outlined some of the dollar facts of the program and the savings that can be achieved. We would like to comment on the specific recommendation contained in S1108, to reestablish an income ceiling for eligibility for the in-school interest subsidy.

Why was the income cap removed? The idea was to allow a parent who did not have the "cash on hand" an opportunity to have his/her child borrow this necessary capital at a low interest rate. However, soaring college costs since 1978 have made the "loans of convenience", loans of necessity. Now students must borrow just to meet the gap between the expected parental contribution and the cost of attendance.

We would recommend that, if the subcommittee is considering setting an income cap, as specified in S1108, that it be higher than that recommended in S1108. A cap of $35,000 is not an unrealistic figure though it would only save 800 M students from being eliminated from the program and $200 million. A $35,000 cap would recognize the fact that middle income families are also being caught in the financial crunch. This could possibly provide more dollars to programs which help needier students but are under financial constraints, i.e., Pell Grants, NDSL.

Another approach which should not be passed over is to permit students with documented need to borrow their unmet need and half of their parental contribution up to the $2,500 maximum. As ACE pointed out in earlier testimony:

> "This would assure that all students who have need after they have exhausted other sources of student aid would be eligible for the GSL program. It would simultaneously ease the problem of students whose remaining need might be too small for banks to make loans, and that of students whose parents may have difficulty meeting the costs of higher priced institutions."

Savings are easy to accomplish if all one is concerned with are the savings. ne GSL program serves a very real purpose to the community and to the nation by providg an investment in the future. Be careful when you begin your work on S1108 least ou find that what you have created is a Florida style sink-hole.

Parental Loan Program - We are concerned that the Administration's proposals to ise the interest rate to market rates, abolish the special allowance and extend the rpayment period to twenty years will make states think twice before they participate. nder such conditions a borrower may not find the terms too agreeable either. The arent Loan program was established to help parents defray the costs of their son's daughter's education. This program is no more than born than the interest rate being raised to 14% in S1108. Is this program to also see the instability which is accompanied the GSL program?

We believe that in order to save money S1108 has initiated another taxing burden the American family. The parent and the student are being asked to bear more and ore of the cost with less help from the government they pay taxes to support.

We would like to see the program remain at the established 9% interest. However, savings must be accomplished, we would suggest raising the interest rate to 11% opposed to 14% in S1108.

Currently, there are 11 states considering establishing a Parent Loan program at . The subcommittee should review state usury laws to assure that the 14% rate will ot create conflicts and create inequities in the treatment of borrowers from state to ate.

rly Repayment Incentive - We hope that the subcommittee will seriously consider the oposal which ACE has presented dealing with incentives for early repayment of ans. Not only will this result in cost savings but in lower defaults among students. is incentive is the best way to motivate students to initiate early repayment.

ndependent Students - As we stated earlier, we are concerned with the status of inpendent students, especially the removal of separate borrowing limits as outlined in 108. The 1980 Amendments allow an independent student to borrow a total of $3,000 r year, $500 more than the maximum for dependent students. We do not agree with this

provision of S1108 since it does not acknowledge the plight of the independent student. An independent student usually needs additional resources to meet the costs of their education. They have no parental contribution or parent loan to fall back on for additional support.

We would suggest that the current treatment of independent students is the most equitable. For that reason, we would oppose any changes in the treatment of these students and their ability to receive a few dollars more for their special circumstances.

In conclusion, we would like to once again thank the subcommittee for it's time and patience in allowing us to present our views on both the Administration's proposed legislative changes as recommended in S1109 and the Subcommittee's recommendations as presented in S1108. We understand that the country is experiencing difficult times. We have not appeared before this subcommittee to ask for handouts but to ask that the commitment that Congress has made to it's young and old, that all may have access and choice to a higher education, remain within your hearts and souls as a top priority, when you mark-up S1108 and vote for appropriations for education on the Senate floor.

I would like to leave you with a quote from one of the laws recently passed by Congress:

"The Congress finds....

(2) that it is the responsibility of the Federal Government, consistent with the rights, duties, and privileges of States and institutions of higher education to promote....

(b) freedom of choice to students who wish to participate in postsecondary education, to select institutions and programs which meet their needs and abilities....

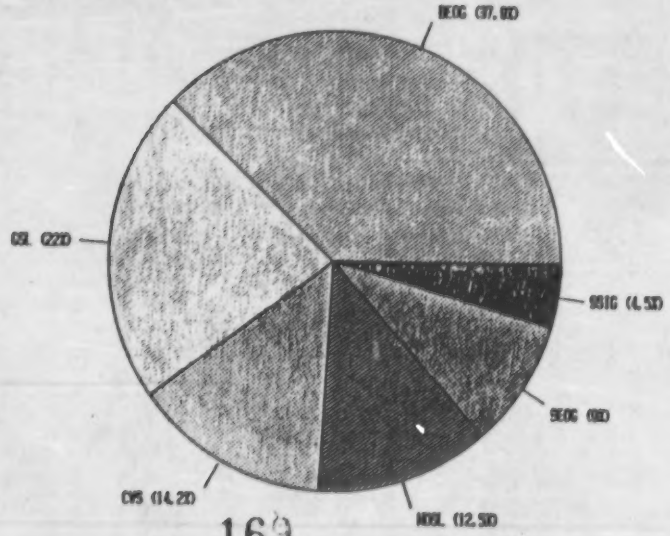
(d) responsiveness of postsecondary education to rapidly changing social and economic needs....

(3) that demographic, economic, and social changes will require institutions of postsecondary education to adapt to the future needs of individuals and of American society."

DISTRIBUTION OF FINANCIAL AID BY PROGRAM

FISCAL YEAR 79' Number of Awards

Total Number of Awards: 6,865,156

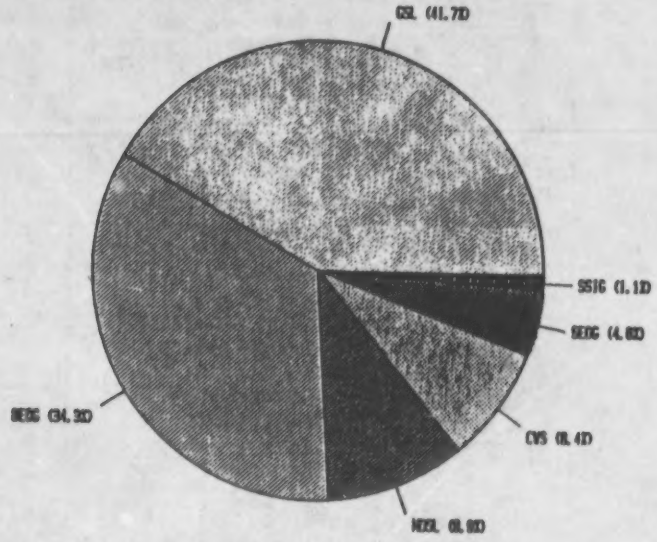


NOTE: Total number of students (unduplicated count) for the above programs is not currently available.

DISTRIBUTION OF FINANCIAL AID BY PROGRAM

FISCAL YEAR 79' AMOUNT OF AWARDS

Total Amount of Awards: $7,148,794,000



SUMMARY OF OSFA PROGRAM ACTIVITY
BY FISCAL YEAR

PROGRAM	FY-76 (76-77)	FY-77 (77-78)	FY-78 (78-79)	FY-79 est. (79-80)	FY-80 proj. (80-81)
SEOG					
Appropriation (in 000's)	$1,323,800	$1,903,900	$2,150,000	$2,431,000	$1,718,000
Expenditures (in 000's)	$1,473,814	$1,587,864	$1,560,947	$2,450,000	$2,182,000
Recipients	1,945,454	1,863,990	1,693,000	2,600,000	2,300,000
Average Award	$ 757	$ 852	$ 825	$ 942	$ 939
No. of Institutions Participating	3,284	3,345	3,760	3,337	3,000
GSL	*				
Appropriation (in 000's	$ 307,787	$ 337,312	$ 490,188	$ 987,503	$1,718,344
Expenditures (in 000's)	$ 506,890	$ 539,000	$ 703,821	$ 999,343	$1,838,639
Loan Volume (commitments) (000's)	$1,827,826	$1,537,237	$1,958,382	$2,983,956	$4,421,032
Est. No. of Loans	1,299,000	972,386	1,084,718	1,509,547	2,034,600
Average Loan	1,408	1,581	1,809	1,976	2,173
NDSL					
Appropriation (in 000's)	$ 321,000	$ 310,500	$ 310,500	$ 310,500	$ 286,000
Expenditures (in 000's)	$ 359,487	$314,988	$ 440,424	$ 710,824	$ 710,817
Recipients	784,518	795,134	908,818	881,384	881,000
Average Loan	$ 732	$ 773	$ 792	$ 823	$ 826
No. of Institutions Participating	3,167	2,813	3,328	3,358	3,400
SEOG					
Appropriation (in 000's)	$ 240,093	$ 250,093	$ 270,093	$ 340,100	$ 370,000
Expenditures	$ 243,792	$ 243,529	$ 296,232	$ 330,025	$ 358,272
No. of Recipients	449,231	499,034	519,022	614,700	650,000
Average Award	$ 543	$ 488	$ 522	$ 537	$ 551
No. of Institutions Participating	3,406	3,600	3,723	3,736	3,850
CWS					
Appropriation (in 000's)	$ 390,000	$ 420,000	$ 435,000	$ 538,000	$ 550,000
Expenditures	$ 506,024	$ 469,128	$ 488,483	$ 597,303	$ 509,425
Recipients	973,000	845,275	852,475	972,345	980,000
Average Earnings	$ 520	$ 555	$ 573	$ 614	$ 622
No. of Institutions Participating	3,215	3,221	3,197	3,220	3,300
SSIG					
Appropriation (in 000's)	$ 44,000	$ 60,000	$ 63,750	$ 76,738	$ 76,738
Expenditures	$ 88,000	$120,000	$127,500	$153,500	$153,500
Recipients	176,000	240,000	255,000	307,000	307,000
Average Grant	$ 500	$ 500	$ 500	$ 500	$ 500
No. of States Participating	55	56	57	57	57

* 15- month period

DISTRIBUTION OF STUDENT AID AWARDS BY INCOME[1]
All Undergraduates
Academic Year 1978-79

Type of Aid	Family Income: Less Than $ 6,000	$6,000-$11,999	$12,000-$17,999	$18,000-$24,999	$25,000 or more	Undermined	Total
BEOG	41.9%	21.7%	12.8%	4.2%	1.7%	17.7%	100.0%
SEOG	43.7	20.6	15.0	5.7	2.3	13.5	100.0
CWS	30.6	19.8	16.1	10.4	6.4	17.3	100.0
State Grant or Scholarship	24.9	20.2	18.8	14.2	8.8	13.8	100.0
GSL	19.5	13.4	18.0	16.3	16.8	16.0	100.0
NDSL	30.3	18.1	18.1	12.8	5.8	15.1	100.0

[1] Personal income for independent students and parental income for dependent students.

Source: Policy Analysis Service, American Council on Education, May 1980; based on student reported data from the AY78/79 study of Program Management Procedures in the Campus-Based and Basic Grant Programs conducted by Applied Management Sciences for the Office of Evaluation and Dissemination of USOE under contract number OE-300-78-0498. The AY78/79 study sample is representative of all undergraduate students enrolled half-time or more.
% May not add due to rounding

ISN OPO ST	SOG LOANS COMMITTED-FY79 66 OSL FEDERAL	OSL STATE	OSL INITIAL	SOG/SEOG/NDSL FEDERAL FUNDS ALLOCATED FY79 OSL	CWS	PELL	PERK	SSIG	SUBTOTAL	COMBINED TOTAL	% OF TOTAL
ALABAMA	22,146	0	22,146	6,980	11,285	5,116	40,189	1,101	70,699	92,845	1.13
ALASKA	0	365	365	301	752	0	837	170	2,444	2,809	.04
AMERICAN SAMOA	26	0	26	0	0	0	72	0	72	103	.00
ARIZONA	22,526	0	22,526	6,345	5,098	5,389	24,753	1,168	48,461	62,987	.77
ARKANSAS	110	10,130	10,240	2,405	4,020	2,086	24,309	966	34,086	44,330	.54
CALIFORNIA	75,891	35,898	111,789	21,863	49,815	24,142	163,946	12,891	292,179	193,961	6.20
COLORADO	16,321	0	16,321	4,317	6,169	4,262	25,847	1,915	36,781	52,102	.62
CONNECTICUT	12,587	131,718	144,305	4,181	7,021	4,848	20,751	967	38,268	182,553	2.20
DELAWARE	0	9,848	9,848	262	1,157	721	5,436	280	8,278	18,126	.20
D.C.	27,919	0	27,919	1,898	3,847	2,898	12,928	541	20,162	48,081	.74
FLORIDA	40,788	33,512	74,300	9,510	14,179	8,961	77,459	3,227	113,439	187,739	2.89
GEORGIA	29	27,887	27,916	4,636	11,029	4,958	40,973	1,350	62,946	90,856	1.40
GUAM	76	0	76	0	203	25	800	24	1,092	1,168	.02
HAWAII	8,132	0	8,132	998	1,618	1,016	4,487	306	8,337	16,469	.25
IDAHO	1,542	2,349	3,891	1,217	1,868	1,068	7,605	749	11,907	15,898	.24
ILLINOIS	20,620	145,241	165,861	13,559	20,526	14,335	97,996	4,000	150,415	316,276	4.86
INDIANA	12,669	40,070	52,549	6,779	10,430	6,895	49,896	1,519	75,521	128,969	1.97
IOWA	27,861	24,703	52,567	5,185	7,262	4,761	30,670	802	48,610	101,997	1.55
KANSAS	20	42,631	42,651	3,768	5,895	3,391	27,169	850	40,265	82,916	1.27
KENTUCKY	816	21,331	22,147	3,789	8,265	3,648	34,339	948	50,974	73,121	1.12
LOUISIANA	299	15,270	15,573	4,963	9,000	3,966	43,729	1,062	62,720	78,782	1.20
MAINE	0	15,337	15,337	2,132	5,868	3,033	11,124	270	25,428	40,772	.63
MARYLAND	1,730	38,102	39,833	6,530	8,475	5,159	31,937	1,366	53,477	91,328	1.40
MASSACHUSETTS	14,312	151,345	165,657	19,137	30,126	17,905	77,856	2,484	147,708	309,585	4.75
MICHIGAN	0	101,790	101,790	9,057	17,050	12,386	82,842	3,433	125,268	227,058	3.49
MINNESOTA	32	93,181	93,213	8,881	12,667	9,165	85,341	1,432	85,430	178,651	2.74
MISSISSIPPI	12,751	0	12,751	2,985	9,176	5,416	37,305	662	55,594	67,110	1.03
MISSOURI	28,068	0	28,068	5,999	10,150	5,706	44,218	1,511	67,892	96,710	1.49
MONTANA	9,209	0	9,209	828	2,496	841	7,737	206	12,318	17,603	.27
NEBRASKA	46,265	0	46,265	2,822	3,266	2,136	18,995	928	27,747	74,012	1.14
NEVADA	0	2,930	2,930	589	967	588	3,055	267	5,201	8,211	.13
NEW HAMPSHIRE	1,360	10,504	11,872	2,653	4,432	2,631	9,725	280	20,097	32,369	.50
NEW JERSEY	2,644	182,064	184,608	7,860	11,920	7,135	54,935	1,956	83,906	268,614	4.11
NEW MEXICO	1,430	5,702	7,132	2,097	4,188	2,520	14,667	380	23,852	30,984	.48
NEW YORK	5,813	549,291	554,704	38,618	67,974	29,514	268,146	7,225	380,174	935,178	14.36
NORTH CAROLINA	1,067	16,464	17,531	7,422	12,893	7,008	60,029	1,849	89,801	106,512	1.64
NORTH DAKOTA	10,949	0	10,949	1,604	2,407	2,167	9,274	282	15,667	26,598	.53
OHIO	129	105,791	105,920	12,044	21,857	13,196	89,579	2,943	138,139	242,319	3.72
OKLAHOMA	157	13,642	13,799	4,152	6,325	3,521	30,639	1,133	45,770	59,569	.91
OREGON	171	15,986	16,089	2,184	9,832	4,450	26,310	967	49,645	65,728	1.01
PENNSYLVANIA	1,202	309,511	310,793	16,294	28,491	18,521	116,272	3,252	182,930	493,723	7.58
PUERTO RICO	7,765	0	7,765	2,388	7,281	5,389	115,496	729	132,096	139,861	2.15
RHODE ISLAND	1,532	17,661	19,573	2,126	3,006	2,332	10,751	391	20,606	40,179	.69
SOUTH CAROLINA	33	4,107	4,140	2,897	7,983	3,521	33,477	873	50,751	54,861	.84
SOUTH DAKOTA	2,649	10,452	22,001	2,016	3,434	2,222	11,753	219	19,639	41,716	.64
TENNESSEE	1,716	23,752	25,468	4,982	9,547	6,110	31,487	1,242	53,486	78,876	1.57
TEXAS	68,997	0	68,997	10,457	24,041	11,996	108,127	4,183	160,222	233,219	3.58
UTAH	329	22,593	22,806	2,004	3,951	1,864	12,572	558	20,112	42,993	.66
VERMONT	569	11,146	11,696	1,030	3,925	1,577	6,965	189	14,572	26,158	.41
VIRGIN ISLANDS	0	600	600	0	34	25	213	14	286	894	.01
VIRGINIA	937	42,930	43,867	9,025	10,796	5,733	39,469	1,591	63,013	106,882	1.95
WASHINGTON	11,228	3,564	14,792	7,519	11,332	8,581	26,781	1,654	55,992	70,784	1.09
WEST VIRGINIA	10,296	0	10,296	1,940	4,238	2,393	19,989	526	29,087	39,383	.56
WISCONSIN	74	85,655	85,729	7,993	12,980	10,991	41,800	1,595	78,132	161,861	2.49
WYOMING	7,195	0	7,195	127	580	467	2,545	176	4,093	6,288	.10
ALL OTHERS	0	42,286	42,286	0	266	26	858	0	1,099	43,385	.67
TOTALS	540,887	2,443,079	2,983,966	305,287	539,298	333,395	2,276,791	76,750	3,527,822	6,510,978	100.00

GUARANTEED STUDENT LOAN - SELECTED HISTORICAL STATISTICS

Year	Appropriations (In Millions) (A)	Amount Committed (In Millions)	Number of Loans (In 000's)	Average Loan	Interest Paid (In 000's)	Special Allowance Paid (In 000's)
1966	$ 10	$ 73	89	$ 820		-
1967	40	244	287	850	$ 5,422	-
1968	40	438	490	873	20,980	-
1969	75	674	756	893	48,489	-
1970	73	811	863	940	88,473	$ 4,955
1971	181	1,015	1,017	998	139,923	16,552
1972	299	1,374	1,391	1,061	171,706	18,123
1973	293	1,171	1,030	1,137	283,360	33,300
1974	299	1,139	938	1,215	232,200	85,000
1975	569	1,298	991	1,311	289,544	126,813
1976 (B)	888	1,030	1,298	1,408	353,331	96,827
1977	337	1,337	973	1,381	335,306	185,889
1978	498 (C)	1,959	1,985	1,986	348,884	194,548
1979	947 (C)	2,984	1,510	1,977	295,944	481,385
1980 (est.)	1,716 (C)	4,421	2,935	1,891	486,330	1,884,392

(A) Consist of funds added to the Student Loan Insurance Fund for payment of interest, Special Allowance and Claims. Does not include $17 million in Advance Reserve Funds distributed to States participating in GSL over the years. Cumulative through September 30, 1979.

(B) Includes Transition Quarter

(C) Includes Administrative Cost Allowance

GSL - SELECTED PROGRAM STATISTICS

	FY 78	FY 79	FY 80 (est.)
Federal Insured Student Loan Program			
Annual Commitments (in $000)	$ 473,475	$ 540,882	$ 574,737
Number of Loans	268,102	276,825	263,628
Average Loan	$ 1,766	$ 1,954	$ 2,180
Guarantee Agency Program			
Annual Commitments (in $000)	$ 1,485,407	$ 2,443,074	$ 3,846,315
Number of Loans	816,616	1,232,722	1,770,972
Average Loan	$ 1,819	$ 1,982	$ 2,172
Total Program			
Annual Commitments (in $000)	$ 1,958,882	$ 2,983,956	$ 4,421,052
Number of Loans	1,084,718	1,509,547	2,034,600
Average Loan	$ 1,806	$ 1,977	$ 2,173
Eligible Lenders **	19,145	19,145	19,145

** Source: NEWLEN, OLI File --- Includes all eligible lenders in the GSL Program

Senator STAFFORD. There is still 2 minutes, Mr. Leifman.

Mr. LEIFMAN. Thank you.

I want to thank the Federal Government, because without the student guaranteed loan program, it would have been impossible.

I am saddened that a lot of students will not get the equal opportunity to choose a college of their choice.

Senator Randolph mentioned before why is not the room filled with students? I want to make a couple of comments on that.

First, about 3 weeks ago, we did have about 100 students from 35 different States come to Washington to make their concerns known. The main problem is the nature of the cuts are so complicated that most students really do not understand them and what is going to happen is that students are going to come back in the fall when it is too late and it is not going to be available, and that is when you are going to see thousands and thousands of students coming up here.

Senator STAFFORD. All right.

Well, thank you very much.

In view of the time constraints, I am going to yield my time to Senator Randolph. There will be written questions that I would like to send to each member of the panel. It is quite brief and you may well have answered it in your detailed statements, which we will put in the record in full.

We regret that time constraints have forced us to adopt this 5-minute rule. So I will send those questions in writing.

Senator Randolph.

Senator RANDOLPH. Yes.

Thank you, Mr. Chairman.

I am grateful for the testimony which has been given to us which I listened to carefully. I think you all recognize that my so-called outburst was just pent up feelings that I have; that there is not the attention being given to the results of today's hearing which are going to be negative throughout the educational system in higher education in this country.

I think it is going to be very difficult and I know that Chairman Stafford's bill, S. 1108, will try to take care of some of the problems that are inherent in the so-called administration bill, 1109; but I think if there is not some type of groundswell throughout the educational community in America, that we are going to be set back.

I am not trying to use the number of years as an example, but we are going to be set back in our efforts to provide college educations to a large segment of our young people who are not in a category, we will say, of very low or no income or the children of the very rich, to protect the body politic of higher education throughout this country. That is the group that I am worried about.

In the college that I speak of, let us say, 1,000, 1,200 students, we have an infinitesimal number of so-called rich students there. Counting "rich students" would not represent very much of our student body. Our student body will be those in need, those that come from families where there are four and five children and maybe two of them are in college or three of them are in college at the same time and this is across America; people trying to hold the

family together; and I think that the holding of the family together occurs not only in the home itself, but a part of holding a family together can and does occur by assuring parents of the continued availability of the moneys necessary to permit that young man or young woman to go to college.

Those are family responsibilities and they are recognized as such. It has always been so in the families that I am very intimately acquainted with, not only in one college but in the—let us say the independent private institutions of higher education in West Virginia as well as other institutions that are State-directed in their programs, including two universities and colleges and several what we call community colleges that have sprung up in our educational system over the last few years.

Now, the administration bill, would require $750 self-help expectation from each student.

Would you discuss that a moment? That is something that I don't think is in current law—is there any self-help requirement mandated for the Pell grants?

Mr. MARTIN. Senator Randolph, I might try to comment on that.

As you well know, the Pell grant program, since its inception, has had a clause that that program not exceed one-half of the student cost of education or is limited by the maximum award, which in some cases is less than one-half of what might be for an individual student.

Since the program began, there is an implied assumption that the student or family are going to be required to make up that additional half of college education through other sources.

The way it is made up primarily comes from the college work-study program or summertime help plus contributions from the family. Mrs. Miller, in her supplemental statement, came up with some charts of what the self-help rate is currently in colleges in California, private as well as technical schools, and in that report, it shows on the average that students are dealing with self-help expectations that far exceed the $750 that the Federal Government is asking for in their bill.

It seems to us that it is a little ridiculous when we already have proof that in the other methods that we assess needs as a minimum $900, is plugged in for a student to add on top of that another $750. We think it is an unfair burden for students and we testified before the House committee and we tried to discuss the issues of the pros and cons on that, on page 15. But we would support your premise that it is an unreasonable element to be included in the bill at this time, and I really believe it was conceived by some people who fail to understand how the program works and what they thought we were addressing was a factor that does not need to be addressed in this manner; and we tried to make that clear to the administration.

Senator RANDOLPH. Well, I fully agree with you.

I do not believe that those in the administration who fashioned its bill really do know the implications.

Mr. MARTIN. I might add, Senator, if you look at the beginning of our statement, we include some demographics on student employment and when you compare that to black and white youths, it is

difficult for these students to come up with summer jobs which even makes it more unreasonable.

Mr. GOSSENS. If I could add to that, in the 1980 amendments there is a Federal policy goal which you all put in the last time around which assumes a 25 percent self-help piece on behalf of the students. Perhaps a flat $750, or any flat dollar self-help requirement in the Pell grant program is not workable and is unfair but there is a percentage relationship that we can deal with; we have it in the amendment as a policy goal; it says that 75 percent shall be met by combination of grants and parental contribution, implying that 25 percent will come from self-help.

We think maybe that is the way to go.

They are talking about a percentage relationship.

Senator RANDOLPH. Mr. Chairman, I was just checking back to see when we began these programs to help the students, based largely on the required repayment of loans and I think I will place in the record, if it is agreeable to you, the vote by which these measures were brought to passage here on the Hill, and not only in 1965—I believe that is the year, is it, 1965?—they started, and again in 1977, was it—1972, 1978, those other years, I think they are rather demonstrative votes in favor of the programs.

[The information referred to follows:]

83-431 O—81——12

SUBMITTED FOR THE OFFICIAL HEARING RECORD, HEARINGS BY THE SUBCOMMITTEE ON EDUCATION, SENATE COMMITTEE ON LABOR AND HUMAN RESOURCES, RE: STUDENT ASSISTANCE AMENDMENTS OF 1981.

SUBJECT: VOTES BY WHICH HIGHER EDUCATION LEGISLATION PASSED SINCE 1965, DATE OF FIRST ENACTMENT.

SUBMITTED BY: SENATOR JENNINGS RANDOLPH (see page 112 of Manuscript)

Public Law 89-329, signed into law Nov. 8, 1965

H.R. 9567. Reported by House Education & Labor Committee (H Rept 621) Jul 14, 1965. Passed by the House amended on a 368-22 roll-call vote Aug 26.

Reported by Senate Labor & Public Welfare Committee (S Rept 673) Sep 1, 1965

Passed Senate amended, by a 79-3 roll-call vote on Sep 2 1965.

Conference Report (H Rept 1178) agreed to Oct 20 1965 by 313-63 roll-call vote of the HOuse, and by voice vote of the Senate.

House Committee vote, Jul 14, 1965 - 21-2 (two dissenting votes cast by Southern Republicans)

Senate Committee vote, reported without opposition, Sep 1, 1965.

---------- Conference : House passed 313-63 after Republican motion to return bill to conference for deletion of Teacher Corps section; motion defeated 152-226 in roll-call vote.

Senate passed without opposition.

Public Law 92-318, signed June 23, 1972, Education Amendments of 1972

S. 659.

Senate Labor and Public Welfare Committee reported S.659 on August 3, 1971 (S Rep 92-346) by unanimous vote of 17-0

Full Senate approved S.659 on August 6, by a vote of 51-0.

H.R. 7248.

House Education & Labor Committee, reported H.R. 7248 on October 8, 1971 (H Rep 92-554) by a record vote of 35-1. One negative vote cast by Republican from Indiana.

Full House voted on November 5, 1971 by roll call of 332-38 to pass H.R. 7248.

Final action on education bills (S.659 and H.R. 7248) was held over under 1972 (2nd session, 92nd Congress), as follows:

S. 659,

Senate Labor and Public Welfare Comittee reported S. 659 on February 7, 1972 by unanimously recommending that the amended bill be adopted by the Senate as a substitute for the House version of the bill. (S Rep 92-604)

Full Senate passed S.659 by roll call vote of 88-6 on March 1, 1972.

Conference Agreement on S.659/H.R. 7248 was adopted by the House by a vote of 218-180 roll-call on June 8, 1972 (having been adopted by full Senate on May 24, 1972 by a vote of 63-15, roll call.

Public Law 94-482, signed October 12, 1976 (Higher Educ. Amendments)

S. 2657. Senate Labor and Puboic Welfare Committee, May 14, 1976, reported S.2657 by unanimous voice-vote (S. Rep 94-882).

H.R. 12835
H.R. 12851
H.R. 14070

House Education & Labor Committee, reported H.R. 12835 on May 4, 1976 by unanimous voice-vote, (H Rept 94-1085)

House Education & Labor Committee, reported H.R. 12851 on May 4, by unanimous voice vote. (H.R. rep 94-1086)

House Education & Labor Committee, reported H.R. 14070 on June 8, 1976 (H. Rep 94-1232) by unanimous voice vote.

Full House passed H.R. 12835 on May 11 by a vote of 390-3.

Full House passed H.R. 12851 on May 12 by a vote of 388-7.

Full House passed H.R. 14070 bn August 25, by a vote of 391-3.

Full Senate passed S. 2657 on Aug 27, 1976 by a vote of 78-5.

Conference Agreement (H Rep 94-1701) reported on September 24, 1976.

Conference Report passed Senate September 28, 1976 by vote of 78-3.

Conference Report passed House on Sep 29 by voice vote.

Public Law 95-566, signed November 1, 1978, Middle Income Student Assistance Act (MISSA)

S.2539. Senate Human Resources Committee on Feb. 24, 1978 reported S. 2539 (S. Rep 95-643).

Full Senate passed S.2539 by a vote of 68-28, on Aug 16, 1978

H.R. 11274 House Education & Labor Committee on March 8, 1978 reported H.R. 11274 by a vote of 32-3 (H.Rept 95-951)

Full House passed H.R. 11274 on October 14, 1978 by voice vote and without major amendments. After passing HR 11274, House substituted its provisions for S.2539.

Senate agreed to House-passed version of S.2539 by voice vote on October 15, clearing measure for President without a conference.

Senator RANDOLPH. If a more equitable reduction in schedules for Pell grants is developed, how would an algebraic formula work in place of the existing formula?

Mr. MARTIN. Senator, I think the purpose of the existing formula in concept, I think, is a good one; I think it is an issue that you all looked at last year when you were going through the reauthorization.

The primary purpose in the legislative history behind the Pell grant program has been to provide access to lowest-income students and it is a need-based program that has always insisted that the money be targeted that way.

As you well know, in 1978, with the passage of the middle-income assistance bill, which the committee worked hard on and supported, we were able to extend some of those benefits to middle-income families who also had been hard pressed because of the impact of inflation. So now we have expanded this and there are differences in terms of how it should be done but it seems to me that as long as this formula is developed, a formula that the neediest students are protected and you work a curve up to the less needy, and if it is necessary to cut back, that those that have the most ability to pay for their education will be the first to be reduced and the least that have the ability will be protected. I think that is what you have attempted to do.

Senator RANDOLPH. You know, I wish I could be enthusiastic about, you know, what we are going to be able to accomplish. That is what concerns me very much during these days and this weighs heavily on me.

Mr. MARTIN. We certainly share your concern. I do not think we are enthusiastic about what we see coming forward and I am afraid a lot of people in this country are unaware of the impact that is going to hit them in a short period of time.

Senator RANDOLPH. That is exactly true. That is exactly true. And somehow perhaps we have not given them that information or they have not understood it.

But in order to sustain the guaranteed loan in school interest subsidy to meet the proposed cost savings, would it not be better, I ask you, Peter, and others, to base the loan eligibility solely on "remaining need," at the same time, allowing for a percentage of

the loan to be used to meet part of the expected family contribution?

Mr. GOSSENS. Yes, sir, Senator; that is the position that I have attempted to express in our written statements, that a remaining-need concept, including a portion of parental contribution in the amounts that can be borrowed is, from our perspective, by far the better way to go. I say that as I look at the list of this subcommittee, and I look at the institutions that members of this subcommittee attended; not a single one of them, with the possible exception of the Naval Academy, not a single one of the institutions in our sector has a tuition and fees cost under $5,000.

If you assume the $5,000 is your benchmark, if you will, for going to college at an independent college and university, where does that money come from? It comes from the parental contribution and it comes from student aid and it comes from some students' earnings and, in some cases, a very limited number of our schools have endowment funds.

We believe that you should continue to allow the parents or the students to borrow a portion of the parental contribution which is the current manner of the program, except right now in the program, you can borrow the full parental contribution.

If you have to achieve savings, let us cut that 100 percent of parental contribution.

We have suggested 50 percent but it could be something else; so that we do not throw the burden on the parents for 1 year, without a parent loan program operating and we maintain some access to borrow some portion of the parent loan, I mean, of the parental contribution, until we get a viable parent loan program.

Senator RANDOLPH. I thank you for that response, which I felt that you would make following your earlier statement.

I only speak for myself at this moment, but I do know that the chairman of our subcommittee is very genuinely concerned about this problem and wants to do what he can in fashioning a legislative proposal that apparently can stay within the so-called reconciliation mandate, but it may give us a chance to perhaps have a flexibility, which we ourselves will fight for, while at the same time give us some rigidity which the administration seeks.

Let me ask off the record——

[Discussion off the record.]

Senator RANDOLPH. I do not want to tell you, of course, what to do, but I think you can find some ways in which you can be helpful in these matters; and I think without directing you in any sense—because I know your commitment to what we are doing—but you perhaps should stay up a little later and get up a little earlier to find ways to mount a program which comes not from Washington or organizations here, which are reflective of the members out there, but somehow or another can get that awakening out to the States and the college family, taken as a whole, which will begin to make itself felt here during these coming days.

Do you think that is possible?

Mr. MARTIN. Senator, I do. I think one of the things that is going on that I would like to go back and comment on for a moment, that was alluded to before is, kind of the situation where we find ourselves.

Let me suggest to you what I think has happened.

Most institutions, typically in the preplanning cycle, the students are planning for the following year what they ought to anticipate in the spring of the year. This has been an unusual spring for students and administrators to communicate because of the uncertainties.

We had some assurances a couple of months ago that there was a compromise and one that we reluctantly accepted with the Secretary of Education in terms of the Pell grant amendments. We also at that time had tentative award letters on our campuses which we knew was coming and we reasonably believed, because of the people that we talked to, that everyone understood that there was no way you could change the guaranteed program without literally bringing it to its knees. So any changes would occur in probably October or later.

So most institutions went ahead because of nervousness with students and gave them tentative awards based on their best assumptions.

Now, we have sent those out. Students have gone home; other students are assuming that they are going to have the money to show up for school this fall. When those students come back and suddenly when we discover this past week, with deeper cuts because of the Gramm-Latta amendments in the House, and realize that the actions of groups such as the Appropriations Committees do not only cut as deep as the President wants but go even further, to require $270 million more cut out of Pell grants, and other reductions in the program, I think that when this evidence and information finally gets out there to people, that you are going to get the kinds of responses that you are finding right now that should be happening; that there is a void.

I do not believe it is anyone's fault. The only thing that we fear the most and we share your concern and can pledge to you that we will continue to work in the next few weeks, is that unfortunately by the time most of those people wake up and realize what has been done to them, that the case is going to be over and they are going to have to live with those kinds of consequences for a whole year.

In the meantime, that means that literally millions of families are going to have to forego or alter the education plans of their children.

I also think that you are going to find in certain institutions across this country that it is going to have a devastating effect on their fall enrollments; that it is going to place them on the brink of going under, and you are going to find in communities that where the dollar in this country rose over three to four times in the year, that suddenly the business communities in those districts are going to find it is an economic disaster because they failed to realize not only our long-term capital investments but the short term that it plays in our whole economy.

Senator RANDOLPH. Do you think NBC and ABC and CBS would carry that statement?

Mr. MARTIN. I would certainly hope so.

Senator RANDOLPH. I wish they would. I wish they would.

The chairman has asked me to conclude this hearing and, for him, I express appreciation for the members of the committee, particularly for himself and in thanking you, in which I join, for the information contained in your testimony.

At this point I order printed all statements of those who could not attend and other pertinent material submitted for the record.

[The material referred to follows:]

STATEMENT OF SENATOR QUENTIN N. BURDICK
BEFORE THE EDUCATION SUBCOMMITTEE OF THE
SENATE LABOR AND HUMAN RESOURCES COMMITTEE
MAY 11, 1981

Mr. Chairman, I would like to submit a brief statement about S. 1108, which your subcommittee is considering today. My statement will summarize my views as well as those of the financial aid community in North Dakota. They will have more specific comments, however, which I will deliver to the subcommittee in a day or two.

As you may know, a group of North Dakota Financial Aid Administrators and the Vice President (for Student Loans) of the Bank of North Dakota came to Washington May 1st for a meeting I arranged with Department of Education officials, members of our staff and members of the Appropriations Committee staff. At that time, the North Dakotans expressed very serious concern about the Administration's proposal for the Guaranteed Student Loan and about the way need would be assessed under that plan.

Because so many students from farm and small business families have family assets that make them ineligible for the traditional need-based programs, the GSL has become a kind of "safety net." These students' families do not necessarily have adequate discretionary incomes. In fact, they often may have negative incomes. But their net worth is inflated by the inflated value of the farmland, and when this fixed, non-liquid asset is plugged into a needs analysis, it renders them ineligible for need-based assistance.

For such students, the GSL, because assets are not a factor in eligibility, is the only option. Others borrow that portion of expected parental contribution derived from the net worth of the farm. Still others, who must help out on the farm during the summer at no pay, borrow the amount they would have saved had they been able to work at a salaried job.

Under the Administration's proposal for the GSL, virtually all of these students would be ineligible for Guaranteed Loans. And under the needs analysis in the 1980 Education Amendments, they would be ineligible for the other aid programs as well. S. 1108, however, by relying on an income cap, would maintain GSL eligibility for many of these students. For this reason, and also because it retains the interest subsidy, S. 1108 is a far superior vehicle for limiting the GSL than is the Administration's proposal. For the most part, I think S. 1108 is a good bill. Certainly, the North Dakotans at our May 1st meeting were relieved to hear about its provisions.

I see two remaining problems which I would like to bring to your attention. First, is the needs analysis for students with family discretionary income over $25,000. This problem goes beyond the GSL. I would hope, however, that S. 1108 will address it since it affects the method for determining need for all aid programs. The methodology puts the same weight on assets as does the Administration's original proposal, thus eliminating most farm and small business students from eligibility. For your information, I am enclosing a chart prepared by the North Dakota Board of Higher Education showing adjusted gross income, farm and business equity, and the effect the new methodology will have on expected parental contributions for a random sampling of North Dakota students. The effect is dramatic, and it is solely because of the new assessment of farm and business assets.

I would offer two solutions to this problem. First, include a waiver of the asset offsets and assessments now in the law. This would be the ideal solution. However, if it proves too costly, I would urge that the subcommittee include a progressive taxation or assessment system on farm and business equity similar to the system you have proposed for discretionary income. Such a system takes into account relative financial strength and assesses it in a progressive manner.

The second problem is timing. S. 1108 takes effect July 1, 1981, just one month before many schools begin. I am concerned that this change so close to the beginning of school, will leave many students unsure of what aid they will get.

Even worse, the changes you will make in the needs analysis may affect the Family Contribution Schedule now pending before Congress. I feel strongly that changes must be made, but I would urge you to take whatever steps possible to minimize the timing problems these changes will create. Perhaps strong report language directing the Department of Education to expedite approval of necessary forms and regulations would be helpful.

In summary, I applaud the subcommittee's efforts on S. 1108. I think it is a good, workable bill. With the changes I have recommended in the method of treating assets, I believe it will limit the GSL Program without eliminating from eligibility those students who need the program.

DATA FROM 81-91 CFAR'S

CALCULATIONS BASED ON 81-87 UNIFORM METHODOLOGY

PROJECTED CHANGE IN P. C. USING SAME INCOME WAGE ASSUMPTIONS AS 81-87 U. M. BUT CHANGING ASSET INVESTMENT TO REFLECT EDUCATION AGREEMENTS OF 1990

Adjusted Gross Income	Size of Family	Members in College	Cash Savings Checking	Home Equity	Real Estate Investment Equity	Farm Business Equity	Parental Contribu From Inc	P. C. From Assets	Total P. C.	Accessible Assets Less 900,000 Reserve	10% Assessment Rate	P. C. at 10%	5% Assessment Rate	P. C. at 5%
6,080	2	1	100	11,000		101,300	70	760	830	-1,302	4,340	+210	2,079	2,140
20,108	4	1	2,200	8,000		177,189	+750	320	+30	129,680	12,068	11,310	6,034	5,784
23,603	3	1	234	1,000		100,000	+750	0	+750	40,224	4,022	3,272	2,011	1,261
3,642	3	1	30,500	5,000		150,000	+750	610	+140	120,500	12,050	11,300	6,025	5,275
2,296	3	1	2,000	10,000		122,000	+750	0	+750	84,000	8,400	7,650	4,200	3,450
1,171	3	1	400	5,000		98,960	+750	0	+750	39,410	3,941	3,191	1,970	1,220
2,811	3	11	450	12,125		147,015	+750	390	+360	87,465	8,746	7,996	4,373	3,623
2,986	3	1	2,800	10,000		58,450	+750	0	+750	1,250	125	0	625	0
3,040	3	1	0	0		90,364	+750	0	+750	30,546	3,054	2,304	1,527	777
6,195	3	1	600	15,000		182,400	+750	1,170	420	123,000	12,300	11,550	6,150	5,400
5,653	3	1	1,500	---	100,000	50,000	+750	2,260	1,510	99,500	9,950	9,200	4,975	4,225
9,158	3	1	2,000	18,000		70,000	1,190	60	1,130	12,000	1,200	2,390	600	1,790
11,199	3	1	3,500	7,000		153,000	10	930	860	96,700	9,670	9,680	4,835	4,845
12,319	3	1	4,000	8,000		72,400	490	360	850	16,600	1,660	2,130	820	1,310
16,030	3	1	16,000	12,000		102,868	630	1,000	1,630	58,868	5,886	6,516	2,943	3,573
16,644	3	1	6,000	16,000		95,339	160	510	970	39,339	3,934	4,094	1,967	2,127
15,731	3	1	3,500	0		153,280	770	1,150	1,870	96,780	9,678	10,398	4,839	5,559
17,051	3	1	25,000	35,000		160,000	520	1,630	2,150	65,000	6,500	7,020	3,250	3,770
20,655	3	1	1,200	10,000		59,774	880	120	1,000	97	9	977	49	928
21,072	3	1	30,000	0	30,000	150,000	1,660	3,700	5,160	150,000	15,000	16,440	7,500	8,960
22,000	3	1	2,500	20,600		156,000	1,760	2,230	3,910	98,000	9,800	11,560	4,900	6,660
22,300	3	1	10,000	8,000	5,000	128,000	4,700	2,170	6,870	83,000	8,300	13,000	4,150	8,850
22,760	3	1	36,000	36,000		91,800	1,160	5,090	5,030	85,800	8,580	9,740	4,290	5,450
24,000	3	1	11,000	28,500		55,000	1,820	820	2,760	8,000	800	4,620	400	5,220
24,078	3	1	600	10,000		92,600	1,800	840	2,640	33,200	3,320	5,120	1,660	3,460
31,844	3	1	2,000	10,000		65,000	2,630	1,070	3,210	800	100	2,130	100	2,280
23,472	2	1	2,500	18,000		101,924	+750	90	+870	101,176	10,153	9,403	5,077	4,327
11,309	4	1	3,500	48,000		63,780	+750	0	+750	7,200	720	-30	3,600	-390
7,910	4	1	500	5,000		132,840	+750	0	+750	73,050	7,305	6,555	3,652	2,902
92	4	1	300	2,900		76,500	+750	0	+750	10,800	1,080	930	840	90
250	4	1	1,290	10,000		219,834	+750	880	130	160,214	16,214	15,464	8,107	7,357
5,180	4	1	500	2,000		61,000	+750	0	+750	4,000	400	0	7,000	0
5,336	4	1	1,000	50,000		323,000	+750	6,650	5,900	266,000	26,600	25,850	13,300	12,550
7,012	4	1	400	13,000		112,000	+750	3,560	2,790	52,600	5,260	5,390	2,620	1,870
8,263	4	1	560	22,000		84,970	+750	450	320	25,810	2,581	1,831	1,291	541
9,735	4	1	1,781	36,887	3,763	148,782	+750	2,150	1,400	93,266	9,327	8,577	4,664	3,914
9,922	4	1	13,501	10,901		44,015*	+690	950	660	23,500	2,350	1,860	1,175	685
10,472	4	1	577	10,000		112,236	+49	790	300	52,811	5,281	5,231	2,641	2,592
11,479	4	1	5,750	29,000		176,000	+693	2,220	1,730	121,758	12,176	11,686	6,088	5,598
13,061	4	1	2,000	7,000		201,900	+620	2,140	1,720	143,250	14,325	13,805	7,112	6,692
13,568	4	1	15,584	15,000		136,000	190	1,250	1,660	91,586	9,159	9,349	4,580	4,770
14,812	4	1	1,540	25,000		128,000	632	1,570	2,200	69,150	6,915	7,345	3,457	4,087
15,925	4	1	2,500	0		79,000	213	120	210	21,300	2,130	2,280	1,065	1,215
15,128	4	1	400	20,000	100,000	79,000		1,710	1,890	119,450	11,945	12,125	5,973	6,153
16,886	4	1	73	10,000		99,000	632	330	850	38,073	3,907	4,627	1,953	2,673
18,196	4	1	30,000	13,000		92,000	550	1,190	2,040	62,000	6,200	7,050	3,100	3,950
20,870	4	1	2,222	8,158		146,000	800	1,020	1,820	88,222	8,822	9,622	4,411	5,211
20,969	4	1	1,000	10,000		121,000	940	1,090	1,630	62,000	6,200	6,760	3,100	3,660
23,150	4	1	240	5,000		61,000	1,080	110	1,190	1,240	124	1,704	62	1,642
26,223	4	1	2,000	10,000		121,000	1,930	5,030	0	81,000	8,100	9,920	4,050	5,870
7,367	5	1	8,200	117,000		177,350	+750	0	+750	118,800	11,880	11,130	5,940	5,190
3,689	5	1	200	60,000		267,500	+750	2,410	1,660	207,700	20,770	20,020	10,385	20,020
2,684	5	1	280	4,000		184,000	+750	0	+750	104,200	10,420	9,670	5,210	4,460
1,600	5	1	810	1,500		160,900	+750	0	+750	101,710	10,171	9,421	5,086	4,336
2,672	5	1	730	0		90,200	+750	0	+750	30,950	3,095	2,345	1,548	798
2,928	5	1	5,500	57,000	80,000	100,000	+750	1,760	1,010	95,500	9,550	8,800	4,775	4,025
3,013	5	1	300	28,000		97,082	+750	0	+750	37,082	3,708	2,958	1,854	1,104
3,725	5	1	500	0		109,900	+750	0	+750	50,600	5,060	4,290	2,520	1,770
4,539	5	1	6,581	5,000		78,000	+750	0	+750	18,650	1,865	1,115	933	183
4,898	5	1	300	53,000		225,000	+750	2,380	1,630	165,300	16,530	15,780	8,265	7,515
5,504	5	1	3,700	33,000		291,939	+750	5,390	4,660	235,139	23,513	22,763	11,756	11,006
7,533	5	1	1,000	30,000		303,900	+120	2,110	2,000	145,000	14,500	13,320	7,250	6,070
8,983	5	1	12,000	10,000		115,600	340	1,360	1,920	67,600	6,760	7,100	3,380	3,720
9,366	5	1	950	1,000		196,633	+750	1,460	710	137,883	13,788	13,068	6,899	6,169
10,535	5	1	1,000	2,000		77,000	+750	0	+750	18,000	1,800	1,050	900	150
11,148	5	1	5,000	30,000	420	238,761	+750	3,800	3,050	229,151	22,918	22,168	11,459	10,709
12,325	5	1	200	8,000		225,368	+750	2,090	1,340	163,565	16,356	15,606	8,177	7,427
12,806	5	1	4,000	5,000		63,764	130	60	170	7,764	776	906	387	517
14,881	5	1	2,000	3,000		116,850	+760	830	130	58,650	5,865	5,165	2,933	2,233
17,066	5	1	1,000	21,000		200,000	120	2,860	2,980	141,000	14,100	14,220	7,050	7,170
18,366	5	1	13,777	0		93,362	-30	970	960	49,119	4,912	4,882	2,456	2,426
20,000	5	1	1,000	48,000		148,000	270	2,670	2,760	81,000	8,100	8,370	4,050	4,320

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Adjusted Gross Income	Size of Family	Members in College	Cash Savings Checking	Home Equity	Real Estate Investment Equity	Farm Business Equity	Parental Contrib. From Inc	P. C. From Assets	Total P. C.	Assessable Assets, Less $60,000 Reserve	10% Assessment Rate	P. C. at 10%	5% Assessment Rate	P. C. at 5%
-18,688	6	1	600	3,000		260,000	-750	1,580	830	200,400	20,040	19,290	10,020	9,270
8,786	6	1	4,500	55,000	96,396	134,375	-750	2,500	1,750	177,271	17,727	16,977	8,863	8,113
11,306	6	1	178	16,000	8,000	181,777	-750	1,350	600	129,955	12,996	12,246	6,498	5,748
13,367	6	1	3,500	20,000		178,800	-750	1,860	1,110	122,300	12,230	11,480	6,115	5,365
12,380	6	1	1,540	30,000		178,000	-690	2,130	1,440	119,340	11,934	11,244	5,977	5,287
20,160	6	1	500	9,000		153,838	-750	1,170	420	96,338	9,634	8,884	4,817	4,067
20,600	6	1	35,000	5,000		95,739	670	2,420	1,890	70,739	7,073	7,573	3,536	4,006
24,911	6	1	0	1,000		150,000	-540	1,370	830	90,000	9,000	8,460	4,500	3,960
-48,367	6	1	600	24,000		176,000	20	1,880	1,900	116,600	11,660	11,660	5,330	5,330
-14,101	7	1	800	20,000		103,120	-750	0	-750	43,920	4,392	3,642	2,196	1,446
2,356	7	1	2,000	28,000		159,000	-750	70	-680	101,000	10,100	9,350	5,050	4,300
12,790	7	1	300	15,000		214,340	-750	0	-750	136,640	15,464	14,714	7,732	6,982
17,839	7	1	200	15,000		152,511	-750	820	70	92,717	9,272	8,522	4,636	3,886
20,492	7	1	1,000	2,500		83,000	-450	340	-110	24,000	2,400	1,950	1,200	750
27,178	7	1	1,000	6,000		184,550	-150	1,960	2,010	119,000	12,000	12,000	6,000	6,000
28,058	8	1	10,000	0		152,000	-750	0	-750	102,000	10,200	9,450	5,100	4,350
11,354	9	1	1,500	7,000		115,000	1,110	880	2,000	58,500	5,850	6,780	2,925	3,855
20,834	9	1	0	14,000		115,000	-750	0	-750	55,000	5,500	4,750	2,750	2,000
			2,000	1,000	800	84,000	-750	0	-750	26,800	2,680	1,930	1,340	590

OFFICE
OF
THE
COMMISSIONER

701 - 224 - 2960

NORTH DAKOTA
State Board of Higher Education
STATE CAPITOL
BISMARCK

May 11, 1981

The Honorable Robert T. Stafford
U. S. Senator
5219 Dirksen Senate Office Building
Washington, DC 20510

Dear Senator Stafford:

I have reviewed S. 1100 submitted by you amending Section 482 of the Higher Education Amendments of 1980. I am forwarding my comments to you for your information, and I request that you make them a part of the official record of the hearing on the bill. My comments are generally representative of the views of the task force on student financial aid concerns appointed by the president of the State Association of Student Financial Aid Administrators.

I find that I am in general agreement with the proposal. The thrust of the bill moves in the right direction and corrects many of the problems of the Education Amendments of 1980. I should like to respond to a few of the specifics of the bill.

I agree with the concept of an "income cap" for the Guaranteed Student Loan as opposed to a "remaining need" format. We have checked with the North Dakota State Tax Department and I am comfortable that a $25,000 cap will adequately meet the needs of the majority of North Dakota families.

I also agree that inclusion of social security educational benefits and 100% of veteran benefits is a reasonable approach to determining a students need for additional funds.

With regard to the Needs Analysis Amendments, I again agree with the general thrust of the proposals, but would submit that they do not go far enough, specifically in relation to farm/business assets.

The removal of home equity in the Amendments of 1980 was an attempt to respond to the consideration of non-liquid assets in needs analysis. The factors that were apparent in the home equity situation are every bit as true for farm/business assets.

I would like to see a greater consideration given to the treatment of farm/business assets than the Amendments of 1980 give. Such consideration could be structured in one of two ways: (1) Write the law to provide for a progressive allowance and taxation system for farm/business assets similar to the method employed by the Uniform Methodology. Such a system would expect less from a small operation and progressively more as the farm/business grows. (2) Remove references to asset allowances and taxation rates from the law and allow the Secretary to set such rates, subject to the approval of Congress. Further, it should be specified that the setting of such rates should be done in consultation with a group such as the Coalition on Student Aid that now recommends changes to the Uniform Methodology. I prefer the second option.

I agree with the Amendments that "roll back" the changes to the treatment of the independent student to pre-1980 days.

My major concern with the Amendments is the proposed effective date of July 1, 1981. With each passing day, timing becomes more crucial to all types of students, first time and returning. The approval of any new forms to implement new amendments, the active processing of the forms, and the disbursement of loan funds all can take significant amounts of time. All of the upset and indecision may well preclude substantial numbers of students from even entering the process and not entering college this fall. My recommendation is to move the effective date to October 1, 1981, thus making likely a far more orderly transition to a new program. An October 1 date would allow the current crop of students to have assurances that it would not be the "system" itself that would preclude them from pursuing their postsecondary objectives.

In the event a July 1 date becomes imperative, it will become absolutely essential to expedite the implementation of a processing system for student loans. Students will not be in a position to wait months or even weeks for form approval, etc.

Since S. 1109 refers to "adjusted family income" as the determinant of eligibility, I am assuming that AFI will be defined as it was prior to 1978. The definition at that time was as follows:

ADJUSTED GROSS INCOME (from IRS 1040)
Less 10% of AGI
Less $750 x number of exemptions
ADJUSTED FAMILY INCOME

Assuming that a similar system would be in place for GSL's, I would suggest that rather than develop a new form, the form currently in place be used with addenda to be furnished by the student financial aid administrator. Such addenda could include a copy of the 1980 IRS 1040 or 1040A, and an attachment incorporating the above calculation with parent signatures. While such a procedure may not be acceptable on a continuing basis, it is an example of how the process might be expedited for the short run.

If I can be of further assistance, please do not hesitate to call upon me.

Sincerely,

Clark J. Wold

Clark J. Wold, Director
STUDENT FINANCIAL ASSISTANCE PROGRAM

CJW:pw

United States Senate

May 12, 1981

The Honorable Robert Stafford
Chairman, Senate Subcommittee on Education
4228 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

I am concerned about the potential loss of opportunity to secure Guaranteed Student Loans which students from farm and small business families may suffer. If the needs base is dropped to $25,000 in assets, as I understand is being proposed in the Administration bill, S. 1109, this will preclude such students from participation in the program.

S. 1108, as outlined in your excellent statement in the record of May 5, is a far superior proposal for many reasons, but especially in that it recognizes the inequity of a needs base for student loans which includes the parents' assets as well as income. Many of our ranchers and small businesses in Montana and other rural states actually have had negative income in recent years. Frankly, they are in dire financial straits in many cases. Denying their children Guaranteed Student Loans would be the last straw.

Senator Burdick presented the case well in your May 11 hearing, and I fully support his position on S. 1108.

I am also forwarding an excellent letter from the Montana Commissioner of Higher Education. While the thrust of the letter was against the recission of funding for Title 1, Part B, the points raised by Commissioner Richardson concerning the continuing value of the Title 1, Part B are very valid, especially in geographically large but sparsely settled states such as Montana.

I realize the constrictions of the Budget by which your Subcommittee is bound and certainly am not urging additional funds for the programs Dr. Richardson supports. I am hopeful that the Subcommittee can provide language in S. 1108 that would permit Montana and similar states to continue these types of programs within whatever funds are available if it is their decision to do so. This would be in keeping with the Administration's philosophy that education policy can best be decided at the state and local level, an ideal I support.

Sincerely,

John Melcher

WASHINGTON, D.C. 20510

THE MONTANA UNIVERSITY SYSTEM
33 SOUTH LAST CHANCE GULCH
HELENA, MONTANA 59620
(406) 449-3024

COMMISSIONER OF HIGHER EDUCATION

April 27, 1981

Senator John Melcher
1123 Dirksen - Senate Office Building
Washington, D.C. 20510

Dear Senator Melcher:

I have discussed briefly with members of your staff my concerns over President Reagan's recision order of $12.8 million of the Title I, Part B, Education Outreach program. It is inconsistent for Congress to spend almost a year and a half reviewing, studying, and debating the federal education programs they wish to support, and then come back two months later and approve a recision order from the President to terminate a program so recently reauthorized.

Before discussing the details of the Title I, Part B program, I would like to indicate a very strong reason for its continuance. The federal/state partnership is complementary to the philosophy of "state grants" which allow the states to determine their priority needs within the federal goals and objectives indicated in the legislation. The educational outreach program is a very high priority in Montana because Montana's geography and population distribution is unique. Not all of the students in Montana are typical 18 to 24 year olds. Many non-traditional students are located in rural areas where no postsecondary educational institutions are located.

Title I, Part B Educational Outreach programs outlines three distinct yet related programs: comprehensive statewide planning for improving access and retention; educational and occupational information and counseling services; and continuing education. I would like to discuss each of these programs.

Comprehensive Statewide Planning

The federal funds available for this program exclusive of state appropriations are the only funds that Montana receives for statewide planning in postsecondary education. The new education amendments of 1980 provide Montana the opportunity to develop coordinated plans for "improving access and retention" to postsecondary education programs for traditional and non-traditional students throughout the state. Needless to say, the size of Montana with its sparsely populated rural communities,

will require a carefully planned innovative delivery system. Couple this with the unique governance of six public college and universities, three private colleges, three public community colleges, five public vocational-technical centers, and five emerging tribally controlled Indian community colleges, our task to plan effective utilization of scarce resources is almost too mammoth to imagine. Financial resources to conduct the comprehensive statewide planning are paramount if we expect to make any inroads to reasonable and sensible plans for the coordination of postsecondary educational opportunity.

Educational and Occupational Information Services

Montana has spent two and a half years of intensive planning and implementation of the Educational Information Center, an information system which relates jobs to education and training and made accessible to the rural schools. I think now that the program is operational it would be disastrous to terminate the federal support. In doing so, several thousand students will be affected in 20 or more high schools, vocational-technical centers, and community colleges across the state who are using the information network to plan their careers.

The real damage would be felt by the small rural schools which could not be served with this information were it not for the Title I funds. These schools are now paying a subscription fee for the information, but the fees do not cover the costs of that delivery. If we were to charge for the full costs, these high schools would not be able to afford it, and the information would be available only to school districts in the larger Montana cities which have some of the information resources available to them. However, those resources are not necessarily available in a concise and consistent manner.

We believe the issue is not just one of general information. The Career Information System is the only source of information about the nation's job universe for students who have little awareness of jobs outside the narrow economy of the rural communities in which they live.

Continuing Education

Since the initiation of the Continuing Education program in 1965, our primary thrust has been the development of a network of viable educational programs which meet the needs of rural Montana citizens. A review of those programs, as well as the individual local projects during the past several years, reveal a high degree of success and excellence. The commendable results have included: (a) solutions to

community problems, (b) the strengthening of the postsecondary continuing education network, (c) effective resource sharing among state, federal, and private agencies and organizations, (d) the development of ongoing self-sufficient local programs and, (e) outreach of educational opportunities to rural Montana.

Two years ago, the Continuing Education program suffered a serious reduction in federal support. The present proposed financial reduction will result in its termination. This action will have serious detrimental effects upon the citizens of Montana and upon the postsecondary educational institutions in general. As evidence of the typical projects that have been supported, I have attached a list indicating the title of the projects that have been funded in Montana over the past two years. Please note the efficiency of these programs as indicated by the relative size of the federal grants to the potential outreach indicated in the brief discription in the title.

In consideration of the needs of Montana, I urgently request your support in denying President Reagan his recision order on the $12.8 million for Title I, B Educational Outreach under the Higher Education Act of 1965. Simply stated, Senator Melcher, if these funds are not available, these programs will have to be terminated.

Thank you for this opportunity and if I can answer any of your questions, please feel free to contact me.

Sincerely,

John A. Richardson
Commissioner of Higher Education

JAR/tt

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Statement

by

Lawrence E. Gladieux
Executive Director, Washington Office
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on

S. 1108--"Student Aid Amendments of 1981"
and
S. 1109--"Higher Education Amendments of 1981"

Submitted to the

U.S. Senate
Subcommittee on Education
of the
Committee on Labor and Human Resources

May 14, 1981

A nonprofit educational association serving students, schools, and colleges through programs designed to expand educational opportunity

Introduction

Mr. Chairman, and members of the Subcommittee, thank you for the opportunity to provide testimony on the proposed changes in federal student assistance now before the Congress, particularly as proposed in S. 1108 sponsored by the Chairman of the Subcommittee, Senator Stafford, and S. 1109, as proposed by the Reagan Administration.

The College Board is deeply committed to the goal of removing financial barriers to higher education through aid to students. The Board is an association founded in 1900 to facilitate the transition of students from high school to college. Creation of the College Scholarship Service (CSS) as part of the Board in 1954 formalized the principle of awarding student aid on the basis of need and launched what has become known as "need analysis." Today CSS processes roughly two-thirds of all aid applications nationally, and, under the system of Multiple Data Entry (MDE), serves approximately 60 percent of all Pell Grant applicants. Close to 5,000 colleges and universities and more than 35 states use the forms and services of CSS in awarding need-based aid to their students.

My remarks here grow out of data and analysis by the Washington Office of the College Board. They do not necessarily represent the views of the more than 2,000 colleges, secondary schools, and school systems that comprise the Board's membership. The Washington Office conducts research on public policy issues in education, focussing especially on postsecondary finance and programs designed to broaden access and choice in higher education. As federal and state student aid has grown in recent years, we have built and maintained an independent capability for policy analysis.

Most of my remarks are directed at the issue of student loans and are based on a paper we have recently completed, "The Guaranteed Student Loan Program: Options for Controlling Federal Costs While Preserving Needed Credit for College." A copy of the paper is attached. I will also address selected issues in need analysis.

For over 15 years, the primary objective of federal student assistance has been the promotion of equal educational opportunity--ensuring that no student would be denied access to postsecondary education for lack of money. Gradually, and particularly since enactment of the Middle-Income Student Assistance Act of 1978 (MISAA), federal policy has been broadened to provide aid not only for the neediest but for middle-income families as well.

Now, after years of expansion, cost-saving changes have been mandated in the two major federal student aid programs, Guaranteed Student Loans (GSL) and Pell Grants. In making these changes, Congress and the higher education community face three challenges.

- First and foremost is to preserve the cornerstone of federal policy in student assistance--equal educational opportunity. When evaluating proposals to save money under the Pell Grant and GSL programs, the question should be asked: What impact does a given proposal or set of proposals have on the neediest students?
- A second challenge is to avoid unnecessary disruption of the student aid delivery system, which depends on careful coordination among public and private authorities as well as institutions of higher education. Public-private partnership has been a hallmark of the student aid enterprise. Any decisions that would alter the system must allow for adequate lead time. Otherwise, the

college-going and college financing plans of millions of parents and students may be seriously jeopardized.

- A third challenge is to control costs in such a way as to preserve the essential balance among the major federal student aid programs. In 1978, MISAA made all students eligible for GSL, regardless of income. Since then, costs in the program have more than tripled and are likely to reach $2.5 billion in FY 1981. Left unchanged, the program is projected to rise to as much as $3.5 billion in costs in FY 1982. Because the program operates as an entitlement, obligations must be met by the federal government, regardless of the total cost. The danger is that mandatory GSL costs will claim a larger and larger share of available federal funds for higher education with less and less left for the discretionary, need-based student aid programs, particularly Pell Grants. We hope the subcommittee will keep this potential trade-off in mind as it makes its decisions.

Guaranteed Student Loans (GSL)

The Reagan Administration and the Senate in its Reconciliation resolution propose three major changes in the GSL program.

- Eliminate the in-school interest subsidy on all new loans.
- Limit eligibility for the new, less subsidized loans to the amount of a borrower's demonstrated financial need.
- Charge a market rate of interest for the recently authorized parent loan program.

The Administration intends these changes to affect loans made on or after July 1, 1981, while the Senate Budget Committee assumes an October 1, 1981, implementation date. In addition, the Reagan plan would ban the Student Loan Marketing Association--a government-sponsored private cor-

poration, which serves as a secondary market for the purchase and exchange of student loan notes--from borrowing through the U.S. Treasury to finance its operations.

In-school Interest Subsidy. The in-school interest subsidy is the one feature which has provided continuity in the GSL program since 1965. While eliminating it would save approximately $300 million in FY 1982, the burden of this change would fall most heavily on the neediest students. It is these students and their families who would face the greatest difficulty in making payments during school years. Likewise, if the interest were deferred, compounded and added to the repayment obligation, the neediest would be the most hard-pressed to handle the increased long-term indebtedness.

Limiting Loans to Need. Prior to 1978, eligibility for subsidized loans was restricted to those with an adjusted income of $25,000 (effectively $30,000). The advantage of an income threshold is that it is easily understood and simple to administer. However, because an income cap allows for no adjustments for family circumstances, it is an imprecise proxy for need. Borrowers are either eligible or ineligible for a subsidized loan depending on whether their family income falls above or below the ceiling, regardless of other family and financial circumstances. In addition, a major flaw of a single income cap if it is applicable to all borrowers is that it permits virtually all students who claim to be financially independent of their parents to qualify for the subsidy regardless of what other resources they might have available.

S. 1108, as proposed by Senator Stafford, retains the critical in-

school interest subsidy and provides that families of $25,000 or less income would be eligible to borrow up to the maximum, while those above $25,000 would have their loans limited to remaining need.

This approach remedies the problem of arbitrariness which an income cap creates for those just above the income level by taking into consideration family size, financial circumstances, and cost of attendance. However, it creates anomalies in treatment of families just below the threshold and does not address the problem of treatment of independent students. Virtually all independent students--who represent at least a third of the current GSL borrowers--would continue to qualify on the basis of the $25,000 income threshold, regardless of other measures of need. And even those families of $25,000 and below would still have to demonstrate that their income was below the threshold; thus some kind of minimum income determination would be necessary.

A full-fledged needs test, such as proposed by the administration, is not without problems either. The greatest problem is that it may discourage lender participation thereby denying loans to eligible borrowers. Increased administrative burdens, or even the same administrative burden but for smaller loans (and thus lower profitability per dollar loaned), may drive some lenders out of the program, particularly small and medium size banks and some thrift institutions. Lenders remaining in the program may restrict loans to their best (and more likely wealthier) customers. In either case, the burden would again fall on the neediest. Moreover, while the majority of loan recipients currently complete an application for student assistance, many do not. For example, graduate students,

who represent about one-quarter of GSL recipients, often do not file any financial aid forms.

These concerns, however, are not insurmountable. For a need-based GSL test to work:

- The educational institution--not the bank--should be responsible for providing the estimate of need. (The experience with the 1972 legislation strongly suggests that banks will resist performing any type of need analysis.)
- A minimum loan amount should be set, such as $1,000, in order not to discourage lender participation. (Small loans cost just as much to process and administer, but with less return on a bank's investment.)
- There should be a cut-off for minimum need below which no loan could be made. (As with the Pell Grant program, $200 is a possible threshold.)
- Sufficient lead time--at least 90 days after enactment--is necessary to inform potential borrowers and lenders of new conditions and ensure that the system is not disrupted.

Moreover, the calculation of need under GSL does not have to be as complex or stringent as for other programs. An option which might be considered is a simple index of GSL need which could include:

- family income
- family size
- number of children in college
- all other forms of student assistance (including VA and student social security benefits) as student resources

Non-taxable sources of income (such as AFDC, social security retirement or surviving spouse benefits) and value of family assets might be excluded.

Since a majority of students participating in GSL file an application for other student assistance, the data items for a simple GSL need calculation are already in hand, and need not be filed again. Those who otherwise would not be filing an application--such as many graduate students--could submit a short application for a loan incorporating the necessary data, along with a copy of the first page of an income tax form for verification purposes. Finally, if a student is independent, the same data items could be used, though a greater contribution might be expected from discretionary income.

While imposition of a needs test would not be without problems, it may be the most workable option to control costs over the long term and to bar potential abuse in the program. Substantial savings could be achieved, as much as $300 million in FY 1982 and over $1 billion by FY 1984.

Parent Loan Program. If there is to be a decrease in borrowing by students under the GSL program, the newly authorized (and less subsidized) parent loan program becomes all the more important. The Administration proposes to increase the interest rate on parent loans from 9 percent to prevailing market rates of interest. No special allowance would be paid to lenders, leaving only the federal guarantee against default, death, or disability. In all likelihood, the Reagan proposal would effectively negate the parent loan program, since lenders appear reluctant to participate without a government payment that assumes a yield linked to changes over time in general interest rate levels.

On the other hand, the proposal in S. 1108 by Senator Stafford to increase the parant loan interest rate from 9 to 14 percent is probably sufficient to maintain lender interest while also avoiding the potential for excessive borrowing or abuse of the program.

Other Options for Saving. Additional savings might be achieved by a further increase (to perhaps 10 or 11 percent) in the interest rate charged to student borrowers, elimination of some of the current provisions that allow students in specified circumstances to defer repayment of their loans, and modification in the special allowance formula that governs the rate of return to lenders.

Effective Date. Both S. 1108 and 1109 propose an effective date of July 1 with the aim of trimming lending this summer, when GSL volume is traditionally heaviest as students arrange loans for the fall term.

Past experience, however, suggests that such a short timetable risks chaos in program operations. Implementing any type of need requirement cannot be done overnight. Even an arbitrary income cap requires that someone determine, based on individual applications, who is above and below the cap. Final congressional action on the reconciliation bill which includes the mandated changes in GSL will not occur until July.

Most students and their families are now making arrangements for college attendance this fall. Further changes in the student aid system this summer will be highly disruptive for students, their families and institutions. Earlier this year, the Administration froze the processing of Pell grant applications creating a backlog and delay which is still being cleared.

The commitment and professionalism of thousands of student aid personnel on campus has enabled the student aid delivery system to weather constant change in recent years, but the system is not infinitely malleable.

Changes in Need Analysis

Both S. 1108 and 1109 include amendments to Section 482 of the Higher Education Act, which specifies criteria for need analysis under federal student aid programs. I will focus on a few of the major proposals as well as address the problem of farm assets.

Assessment Rate on Discretionary Income. Both proposals authorize the Secretary to set the rate at which family discretionary income will be assessed in arriving at the family's contribution to the student's education, rescinding the 14 percent set in current law (for families up to $25,000 income). However, the Stafford bill explicitly calls for a series of rates while the administration would allow the Secretary to set either a single rate or a series of rates.

The "tax rate" on discretionary income for determining academic year 1981-82 awards is 10.5 percent. Under the 1980 Amendments, this percentage would increase to 14 percent beginning in academic year 1982-83 for families up to $25,000 income. In order to achieve savings in FY 1982, however, it is our understanding that the Department of Education would like to set the tax rate (if a single rate) still higher. The higher the rate, the greater the burden on lower income families. Likewise, a lower rate allows higher income families to contribute less, contrary to the Administration's goal of targeting aid on the neediest.

Although it is more difficult to devise, a series of progressive rates is fairer and still allows the executive branch and the Congress to adjust the rates consistent with cost savings requirements. Our office is currently attempting to estimate the effect on costs and students of different tax rate options.

Home Equity and Assets. The 1980 Amendments removed from consideration in determining need the equity in a family's home (or "single principal place of residence"). S. 1108 reintroduces home equity as part of a total asset reserve of $25,000, as was the case prior to passage of the 1980 Amendments. The Administration does not propose a change in this regard.

As the subcommittee well knows, home equity has been a bone of contention for many--particularly those from areas of high real estate values--who view the family home as a non-liquid asset which should not be used in assessing a family's ability to pay college costs.

Excluding home equity entirely, however, as in current law, not only increases costs substantially (by roughly $200 million) but also discriminates against renters.

The attached Table 1 illustrates the relation between family income and home equity and the relationship of home equity to total assets. The average home equity for a family with income of $20,000 is roughly $2^,500. The average value of their total assets (including home equity) is approximately $30,000. For a family with $25,000 income, the average home equity is close to $27,000 while total assets are approximately $34,000.

These data may be helpful to the Subcommittee as it grapples with this

sensitive issue. Unfortunately, even a modest increase in the asset reserve above the $25,000 level provided in S. 1108 bears a price. For example, a total asset reserve (including home equity) of $35,000 would add, by our estimate, approximately $95 million to Pell Grant costs.

Farm assets. If the issue of home equity has been controversial, the problem of treating farm assets virtually prompts a range war. While neither S. 1108 or 1109 addresses farm assets, the issue has not gone away. Under current law, the first $50,000 in farm and business assets are excluded from the determination of family ability to pay. As table 2 shows, on a national basis this is a reasonable level of asset exclusion. How, ever, national data masks the large disparities in farm states. For example, Table 2 also shows that the average value of farm/business assets of a $15,000 income family in North Dakota is approximately $75,000, and in Iowa approximately $84,000. In both cases, the families' assets would virtually knock them out of the Pell Grant program.

One option to deal with this problem, which is used in the Uniform Methodology, is to set a progressive schedule for including farm and business assets in the determination of family financial strength.

Treatment of Independent Students. In recent years, the number of students qualifying as independent of parental support for purposes of aid eligibility under federal rules has risen substantially. At the same time the treatment of their income and assets has been liberalized by Congress.

A persistent concern has been whether students (and their parents) have manipulated the system and established independent status prematurely in order to take advantage of higher award levels. Many campus aid adminis-

trators have become increasingly uneasy with the growth of independent student eligibility and the prospect of still further liberalization under the single federal need analysis system mandated by the 1980 Amendments.

The Stafford bill would essentially revert to the pre-MISAA authority for the Secretary to set regulations governing the treatment of assets and income of independent students. This seems the most sensible solution for the moment to permit time for careful rethinking of a very complex issue. S. 1108 will provide the necessary flexibility in regulations to try to account for the varying circumstances of independent students. Self-supporting students defy any simple categorization. There is a major difference for example, between a single, 18-year-old, full-time independent and a married 30-year-old independent with one or more children attending part-time. (In 1980-81, there were approximately 1.6 million independent Pell grant applicants, roughly half of whom were 25 years of age or over, and half of these with a family size of 3 or more.)

The Subcommittee may want to provide the Secretary with some guidance in the treatment of independent students, particularly those with dependents, which assures that regulations will be equitable.

Timing of Changes. The 1980 Amendments to the Higher Education Act call for a single need analysis system to be implemented along with a single application form for both Pell Grants and the so-called campus-based federal aid programs beginning in academic year 1982-83. The Department of Education, however, is far behind schedule in developing rules to set up the new system, in part because of the change in administration and in part because of the inherent complexities of need analysis. It may soon become

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problematic whether or not the new system can be implemented for academic year 1982-83 without throwing the financing of students and institutions into disarray, a hardly welcome prospect following the uncertainty that is still unresolved for academic year 1981-82. The Subcommittee may wish to monitor closely the progress of implementation in this area. In light of the steadily increasing pressure to find additional places to cut the budget, it is worth noting that a one-year delay in implementing a consolidated federal student aid delivery system would yield a modest cost saving.

Thank you for the opportunity to submit this statement on some of the critical issues before the Subcommittee as it confronts the difficult task of revising and trimming the costs of student aid programs. I should be glad to provide any further information or analysis that might be helpful.

TABLE 1

Home Equity and Total Net Assets by Family Income
for Dependent 1980-81 BEOG Applicants

TABLE 1A: Home Equity by Income

	INCOME:	$0	1-4,000	4,000-7,500	7,500-10,000	10,000-12,000	12,000-15,000	15,000-20,000	20,000-25,000	25,000-30,000	30,000-35,000	35,000+	TOTAL
HOME	% Dist.	0.6	4.1	7.6	6.9	5.8	9.3	16.7	17.2	13.9	8.9	9.6	100.0
	Avg Amt	$22,594	$14,498	$16,771	$19,116	$20,629	$21,718	$23,319	$25,628	$28,323	$31,457	$39,008	$25,174

Table 1B: Total Net Assets by Income

	INCOME:	$0-4,000	4-7,500	7,500-10,000	10,000-12,000	12,000-15,000	15,000-20,000	20,000-25,000	25,000-30,000	30,000-35,000	35,000-40,000	40,000+	TOTAL
ASSETS	% Dist.	7.6	11.2	8.4	6.6	9.7	15.7	14.8	11.5	7.2	3.9	3.8	100.0
	Avg Amt	$16,272	$13,113	$17,896	$20,793	$23,794	$27,979	$31,886	$36,261	$41,390	$49,509	$74,604	$28,797

Source: U.S. Department of Education, Office of Postsecondary Education, 3rd quarter BEOG Applicant Statistics

Note: Totals may not add due to rounding.

TABLE 2
Net Average Asset Value by Income
(National, North Dakota, Iowa)

NATIONAL

Income	$0	1-4,000	4,000-7,500	7,500-10,000	10,000-12,000	12,000-15,000	15,000-20,000	20,000-25,000	25,000-30,000	30,000-35,000	35,000+	TOTAL
Farm/Bus. Value	$111,640	$42,786	$34,721	$31,623	$31,930	$31,973	$35,107	$36,739	$41,524	$44,917	$85,951	$42,530
Total	$133,336	$61,066	$54,764	$55,711	$57,843	$60,241	$65,193	$70,791	$79,643	$88,712	$146,425	$74,470

NORTH DAKOTA

Income	$0	1-4,000	4,000-7,500	7,500-10,000	10,000-12,000	12,000-15,000	15,000-20,000	20,000-25,000	25,000-30,000	30,000-35,000	35,000+	TOTAL
Farm/Bus. Value	$182,095	$92,399	$91,355	$118,396	$65,316	$73,796	$78,245	$104,998	$90,941	$89,693	$324,733	$110,361
Total	$202,745	$111,783	$110,105	$137,549	$89,571	$97,021	$103,114	$134,956	$126,044	$131,084	$300,324	$132,161

IOWA

Income	$0	1-4,000	4,000-7,500	7,500-10,000	10,000-12,000	12,000-15,000	15,000-20,000	20,000-25,000	25,000-30,000	30,000-35,000	35,000+	TOTAL
Farm/Bus. Value	$222,894	$81,703	$90,169	$73,286	$68,421	$83,624	$85,563	$97,768	$97,311	$101,900	$195,454	$104,357
Total	$248,741	$99,738	$109,827	$94,458	$89,469	$107,382	$111,853	$122,711	$130,821	$139,007	$236,446	$131,361

Source: U. S. Department of Education, Office of Postsecondary Education, 2nd quarter BEOG Applicant Statistics.

The Guaranteed Student Loan Program: Options for Controlling Federal Costs While Preserving Needed Credit for College

A Discussion Paper
from the
Washington Office
of the
College Board

May 1981

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PREFACE

Approximately three million postsecondary students now borrow through the Guaranteed Student Loan Program. The dramatic expansion of this program since 1978 has altered patterns of financing higher education, for both families and colleges and universities.

Now, in the drive to reduce the national budget, the program faces an uncertain future. The loans are made primarily by banks, but are guaranteed and substantially subsidized by the federal government. Direct federal costs have jumped to well over $2 billion annually and could exceed $3.5 billion next year if the eligibility requirements and terms of the loans were to remain unchanged. The Reagan Administration, however, has proposed major alterations.

Congress must decide how quickly reforms are to be put in place and how much money must be saved in the near term. The task is complicated by the fact that the program operates as an entitlement and most federal expenses associated with it are dictated by obligations on loans made in prior years.

The challenge is to refocus student loan policy and curb federal costs without jeopardizing the program's essential function as a source of credit for students who need it.

This paper examines the Reagan Administration's proposals and focuses attention on alternatives that may be more workable. It analyzes a variety of proposals in terms of the estimated cost savings and potential effects on the supply of and demand for student loans. Background is also included on the history of legislative changes and causes of growth in the program.

Arthur Hauptman, a consultant to the Washington Office, drafted most of the paper. William Van Dusen contributed expertise on the issue of need analysis. Robert Hartman of the Brookings Institution, officials of the Department of Education, and Congressional staff provided helpful comments and criticisms.

The Washington Office of the College Board conducts research on public policy issues in postsecondary education. Results are shared with the membership of the College Board, federal and state policymakers, and other researchers. Grants from the Ford Foundation have enabled the Office to build and maintain an independent capability for policy analysis.

The work presented in this discussion paper, however, does not reflect a policy or position of the College Board, nor any endorsement by the Ford Foundation.

Lawrence E. Gladieux
Executive Director

THE PROGRAM

The Guaranteed Student Loan Program (GSL) has become a principal means for helping students and their families meet the rising costs of higher education. The explosive growth of this program during recent years, however, has also made it a prime target in efforts to cut the federal budget.

The loans are made primarily by commercial banks but are guaranteed against default by the federal government in conjunction with state agencies. Students enrolled at least half-time may borrow at below market rates of interest (7 percent prior to January 1, 1981, 9 percent for new borrowers thereafter), and repayment of principal does not begin until the borrower leaves school. Loan limits are $2,500 a year for undergraduates and $5,000 annually for graduate students. The government pays the interest during the school years and for a short grace period afterwards. In addition, lenders receive a federal payment, "a special allowance," to compensate for the difference between the statutorily set interest rate and market rates of return.

THE ISSUE

Since 1978, when students from all income levels became equally eligible to receive subsidized loans, lending has jumped from $2 billion to a possible $7 billion in the current year. Approximately three million students are now borrowing under the program. As loan volume has shot up, so have federal expenses associated with the program--the in-school interest payments, special allowances to the banks, and default (plus death and disability) claims. Costs have more than tripled in three years and are likely to reach $2.5 billion in fiscal year (FY) 1981. If the program were allowed to continue unchanged, lending volume in fiscal year 1982 would probably exceed $9 billion, and federal costs might reach $3.5 billion.

Over the past dozen years a series of legislative changes designed to maintain GSL as a reliable source of student credit has helped to fuel the increase in loan volume and federal costs. High rates of default--especially during the mid-1970s--have also increased program expenses. Recently, the greatest budgetary drain has been soaring market interest rates, which translate into larger special allowance payments to lenders. Of the $1.7 billion growth in annual GSL expenditures between fiscal year 1978 and fiscal year 1981, almost half is attributable to the increased cost of money during that time. (See Appendix A for a historical review of the growth of GSL volume and costs.)

Current GSL policy--interest-free loans to all borrowers while in school regardless of their own or their family's financial circumstances--is under attack. The major policy questions boil down to these:

- Which students, if any, should be eligible for the in-school interest subsidy?
- How much should students or their families be eligible to borrow at below market rates of interest? In particular, should parents be able to substitute low-interest loans of convenience for what they are reasonably expected to contribute to their children's education?

THE REAGAN PROPOSALS

The Reagan Administration's recommended reforms for GSL, which closely follow President Carter's final budget proposals, would:

- Eliminate the in-school interest subsidy on all new loans.
- Limit eligibility for the new, less subsidized loans to the amount of a borrower's demonstrated financial need.
- Charge a market rate of interest for the recently authorized parent loan option under the program.

The Administration intends these changes to affect loans made on or after July 1, 1981.

In addition, the Reagan plan would require Sallie Mae to shift entirely to private sources of capital sooner than planned under current legislation. This government-sponsored private corporation, which serves as a secondary market for the purchase and exchange of student loan notes, currently relies on borrowing through the U.S. Treasury to finance its operations.

If fully accepted by Congress and implemented on the proposed schedule, the Reagan plan would save the federal government a great deal of money. Although estimates vary, program costs in fiscal year 1982 could drop by as much as $1 billion below what would be spent under current law and regulations. Future savings would be still larger.

While the Administration's intent is to reduce the amount of subsidy and bar the well-off from borrowing under the program, the effect is likely to be more far-reaching on both the supply and demand for student loans. No one can be sure whether or to what degree lenders will stop making loans if, as may happen under the proposed reforms, the paperwork increases and the average loan size decreases, thereby increasing the administrative costs per dollar loaned. Likewise, no one knows how many potential borrowers may be unable to handle the burden of paying interest while in school or to manage the additional repayment obligation if compounded interest is allowed to accrue during the school years.

The danger is that student loans would be drastically curtailed for the needy as well as the non-needy. All told, GSL volume would probably decline by more than half in fiscal 1982 under the Administration's plan, from the current annual level of roughly $7 billion. The Reagan proposals, moreover, come at a time when the National Direct Student Loan Program (NDSL) faces a substantial cutback in Congressional appropriations and the new parent loan plan has not yet (except in one or two states) gotten off the ground. Thus, students and their families cut off from GSL may not be able to fall back on alternative loan sources.

THE NECESSITY OF REFORM

Continued, open-ended expansion of GSL at highly subsidized rates is unlikely given the current budgetary and political climate in Washington. Moreover, unless checked, the growth of GSL spending threatens to pose budgetary trade-offs that could blunt federal efforts to equalize educational opportunity. While most federal student assistance is subject to annual appropriations review and control, the GSL program is structured as an entitlement: the government is contractually obligated to make certain payments to lenders on each and every loan. The danger is that mandatory GSL expenses will squeeze other, need-tested student assistance programs in the search for what surely will be scarce federal dollars.

If the Administration's proposals would have unacceptable consequences for the millions of students and the hundreds of colleges and universities that now depend on GSL proceeds, the higher education community must be prepared to offer other options for bringing federal student loan costs under control.

THE TIMING OF REFORM: SHORT-TERM VERSUS LONG-TERM BUDGET SAVINGS

Policymakers must now decide how quickly reforms are to be put in place and how much money must be saved in the near term. Their task is complicated by the fact that currently over 80 percent of annual federal GSL costs are dictated by obligations on loans made in prior years and are largely non-discretionary.

To save money in the current fiscal year and to maximize budget savings in fiscal 1982 (beginning next October 1), the Administration wants its reform proposals to take effect in time to trim lending this summer, when GSL volume is traditionally heaviest as students arrange loans for the fall term. A July 1 rather than an October 1 implementation date could make a difference of $200 million in fiscal 1982 savings.

Past experience, however, suggests that such an early timetable would risk chaos in program operations. In 1972, legislation was enacted that would have required a needs test for some students to receive a GSL. The legislation was signed in late June, effective for loans beginning July 1. Lending virtually halted that summer as banks and government officials wrangled over how to implement the requirement. Emergency legislation had to be enacted in August to permit the resumption of normal lending activity before the school year began; the needs test provision subsequently was permanently dropped

Regardless of the precise date of implementation, the reality is that large-scale, short-term cost reductions cannot be achieved without seriously disrupting the plans and decisions of both students and institutions of higher education. The focus of reform should be on achieving effective, longer-term cost controls.

CHOOSING AMONG COST-CUTTING ALTERNATIVES

Most strategies for controlling GSL costs fall into one of four categories:

1) Make GSL less attractive to borrowers.
2) Restrict student eligibility for loans.
3) Reduce the rate of return to lenders.
4) Limit the volume of lending.

The first two aim primarily to shrink unnecessary or excessive student demand for loans (though they might simultaneously lessen banks' willingness to lend). The latter two would reduce the incentives and opportunities for lending, thereby affecting the supply of loans. (See Appendices B and C for a fuller discussion of various cost-cutting alternatives and the estimated savings that would result from them.)

The Reagan plan invokes two types of measures for reducing student GSL demand--it would make GSL less attractive to borrowers by eliminating the interest-free feature on all new loans and it would limit eligibility on the basis of need. As noted earlier, however, the unintended effect would likely be to prevent many needy as well as non-needy students from borrowing.

Instead of this double-barrelled approach, either eliminating the in-school interest subsidy or limiting eligibility for subsidized loans would alone be sufficient to cure the problem of unnecessary borrowing. The cost savings, while not as large as the Reagan cuts, would still be substantial, especially over the long term. Either reduces annual spending by an estimated $300 million in fiscal 1982 and by more than $1.5 billion in fiscal year 1984.

Of the two, ending the in-school interest-free feature is the less attractive or desirable alternative. The in-school subsidy is the one essential element of GSL that remains intact from the original 1965 legislation. Tempting as it may be to abandon such an expensive feature of the program, the drawback is that the neediest students would be the most hard-pressed to make interest payments during their school years or least able to handle the increased indebtedness if the interest is deferred, compounded, and added to the repayment obligation. Moreover, if banks decide to reduce their GSL participation because of the additional paperwork associated with ending the interest subsidy, they are likely to allocate what loans they do make to their best (and wealthiest) customers. Students who are less well-off may be squeezed out of the program completely.

Stretching out the repayment period for borrowers with high debt levels and assuring alternative loan sources might ameliorate, but would not totally offset, the adverse consequences of ending the GSL interest-free feature for needy students.

Restricting Eligibility on the Basis of Need

To control costs over the long term and bar potential abuse in the program, the most direct remedy is to limit eligibility.

One way of defining eligibility is by family income, as was done before 1978. The advantage of an income ceiling is that it is easily understood and simple to administer. But an income cap that allows no gradations is an arbitrary and imprecise proxy for need. Borrowers are either eligible or ineligible for the maximum subsidized loan depending on whether their family income falls above or below the ceiling. An income cap also overlooks a family's other financial resources or constraints, and it fails to recognize the variability in institutional costs.

In addition, a major flaw of a single income cap applicable to all borrowers is that it permits virtually all students who claim to be financially independent of their parents to qualify for the subsidy regardless of what other resources they might have available.

Another way to limit eligibility is to require an analysis of need which compares the student's cost of attendance to a systematic estimate of financial resources available to the student and his family. For GSL, an index of need could be used simply to identify eligible students (as in the case of an income ceiling); or it might also be used to measure the amount that a student could borrow. If need is used only to identify eligible borrowers, it suffers from the same weaknesses as an income cap (except that it would be more sensitive to other financial resources and constraints and would serve as a better screening device for independent students). But if students or families can borrow only to the extent of their need, then the GSL subsidy can be effectively targeted.

There are several arguments against requiring a need calculation to determine the amount of a student's eligibility for GSL. First, to the extent that a needs test would require additional paperwork, it may reduce lender participation. The experience with the 1972 legislation strongly suggests that banks will resist performing any type of need analysis. Second, many banks may be unwilling to lend to students with relatively small amounts of need (of less than $1,000 or so) because of the slim profitability associated with small loans. Finally, limiting a student's loan amount on the basis of need conflicts with a major function that GSL has come to serve: enabling families to substitute all or part of a loan for what they might reasonably be expected to contribute.

These concerns, however, are not insurmountable. For a needs test to work in GSL:

- There must be sufficient lead time to implement it properly and the educational institution--not the bank--should be responsible for providing the estimate of need, based on the cost of attendance and the calculation of financial resources available to the student.

- Threshold loan limits should be introduced. For example, students with less than $200 of need might be ineligible for a subsidized loan while those with need of between $200 and $1,000 might be judged eligible to borrow up to $1,000.

- The GSL need calculation should be less complex and less stringent than prevailing need analysis standards, and the need-based GSL should be accompanied by a much less subsidized but viable parent loan option (see next section).

An index of need for GSL that is both fair and simple might be constructed according to the following specifications:

- To be simpler than other need analysis procedures while recognizing legitimate differences in financial strength, the GSL eligibility index might take into consideration a family's income, size, and the number of children in college, but leave out non-taxable sources of income and the value of family assets.

- To avoid duplication, there should be multiple means for implementing the need analysis requirement. Many students who have filled out forms for purposes of scholarship and other aid programs will already have the necessary information on file with the campus financial aid office. Other students might be permitted to submit the first page of an appropriate income tax form together with the loan application for purposes of verification.

- In determining the amount of need, all other forms of student assistance--including student-related Social Security payments and veterans' educational benefits--should be considered as financial resources available to the student.

(For a fuller description of a possible index of borrower eligibility based on need, see Appendix D.)

Ensuring a Viable Parent Loan Program

Student borrowing based on need should be backed up by a viable parental loan option for families lacking the cash-flow to cover their expected contribution. With the anticipated decrease in student GSL borrowing that will accompany reform, it becomes even more important to ensure that (less subsidized) loans are available to parents (as well as independent students who find themselves unable to borrow on the basis of their need).

Under the Reagan plan, parents who wish to borrow to replace part or all of their expected family contribution would only be able to do so at market rates of interest, instead of the 9 percent rate enacted in the 1980 Amendments, and no special allowance would be paid to the lender. In all likelihood, this proposed change will effectively kill chances of getting the parent loan program

off the ground nationwide. Lenders appear reluctant to participate without a government payment that assures a yield linked to changes over time in general interest rate levels.

Alternatively, if the interest rate for parental loans were raised to 12 or 14 percent and the special allowance (albeit smaller than on the student loans) continued, the current potential for "arbitrage" by parental borrowers would be curtailed without unduly deterring lenders from participating in the new program.

Regulating Supply

While the Reagan plan is mute on the issue of lender incentives and opportunities in GSL, a balanced set of reforms might include measures to reduce the supply of GSL as well as reducing borrower demand. For example, it may prove desirable to moderate the yield to lenders by altering the special allowance payment formula or perhaps gearing the formula to an index of profitability such as size of a lender's student loan portfolio.

It may also be advisable to consider placing a limit on the amount of loans guaranteed and subsidized by the government in any given year, thereby providing a backstop should other policy reforms fail to result in sufficient reductions in lending activity and program costs. Limiting the volume of GSL lending, however, would alter the entitlement nature of GSL. More important, determining which states, which lenders, and which students would have access to the limited federal guarantees and subsidies would introduce considerable complexity and uncertainty into the administration of the program.

SUMMARY

The alternatives discussed here would not achieve savings of the magnitude called for by the Administration. But the growth of the Guaranteed Student Loan program would be brought under control and the long-term burden on the federal budget significantly reduced without undercutting necessary program operations.

An index of need that determines both borrower eligibility and permissible loan amounts is the most direct and reasonable way to control program costs and reduce excessive borrowing. The eligibility calculation should reflect the significant and real differences in the ability of families to pay for their children's education, yet be simple enough not to encumber the administrative machinery of the program. Such a test should also recognize that tuition levels among institutions of higher education do vary and that a legitimate function of guaranteed loans is to enable students who choose

higher cost institutions to pay for that choice out of future earnings. Annual estimated savings resulting from applying an index of need--even a relatively lenient calculation--would still exceed $1 billion annually by fiscal year 1984.

Raising the interest rate for parental loans to 12 or 14 percent should help to ensure that this new option is not abused, while still providing an alternative source of funds for parents who lack the cash-flow to cover what they might reasonably be expected to contribute to their children's education. Additional long-term savings might be achieved by further increases (to perhaps 10 or 11 percent) in the interest rate charged to student borrowers, elimination of some of the current provisions that allow students in specified circumstances to defer repayment of their loans, and modification in the special allowance formula that governs the rate of return to lenders.

Reform of the Guaranteed Student Loan program must be perceived as fair to borrower, lender, and taxpayer alike. The challenge now is to ensure that changes are reasonable and workable--to refocus the program and curb federal costs without jeopardizing the important function of GSL as a source of credit for students who need it.

APPENDIX A

WHY HAS GSL GROWN?

Under current law and regulations (and assuming only a modest reduction of interest rates over the next year), federal expenditures for GSL in fiscal year 1981 will be approximately $2.5 billion,* and the figure in fiscal year 1982 could exceed $3.5 billion, compared to $700 million as recently as fiscal year 1978.

The growth of federal outlays has accompanied an enormous expansion in the annual volume of GSL lending. If current policies remain in force, over $7 billion of loans will probably be made in fiscal year 1981, a threefold increase in just three years, and lending may reach $9-$10 billion in fiscal year 1982. This trend ensures additional future expenditures since every dollar of new lending commits a string of federal payments stretching over a number of years.

Commitments on loans made in prior years, in fact, represent most of the present annual federal cost of GSL. Of the $2.5 billion in estimated expenditures during fiscal year 1981, approximately 80 percent--$2 billion--can be traced to loans made before the beginning of the current year. If no loans were made at all during fiscal year 1982, expenditures next year would still reach almost $3 billion.

There are three principal components of federal costs associated with GSL borrowing:

a) While a borrower remains in school and for a short "grace period" thereafter, the federal government pays to the lender the interest on behalf of the student borrower.

b) The federal government also pays to the lender a "special allowance" each quarter to compensate for the difference between the statutorily-set interest rate charged to borrowers and a market rate of return; the payment is based on the total dollar value of student loans held by a lender.

c) Lenders are guaranteed for both principal and interest in the case of death, disability, default, or bankruptcy of the borrower. This guarantee is generally a two-step arrangement in which state-authorized agencies enter into agreements with lenders, and the federal government then reinsures the state guarantee agencies, usually at 100 percent of the defaulted amount.

*The official Administration figures are substantially lower, but seem to be based on unrealistically low estimates of interest rates and of outstanding loans on which subsidies must be paid. The Congressional Budget Office (CBO) estimate for GSL current policy expenditures in fiscal year 1981 is approximately $2.5 billion.

The following table shows how expenditures for these three components have grown and are projected to grow.

GSL Obligations (in millions of dollars)

	Fiscal Years					
	1970	1975	1978	1980	1981 (estimated)	1982 (projected)*
"In-School" Interest	$103	$230	$249	$ 445	$ 665	$1,100
Special Allowance	9	87	195	820	1,460	1,800
Guarantee**	5	120	226	279	300	400
Total***	$117	$437	$670	$1,544	$2,425	$3,300

*Estimates of expenditures under current law. All other figures from Federal Budget Appendix or Department of Education.

**Federal expenditures for claims for death, disability, default, or bankruptcy of borrower, net of federal collections on defaulted loans.

***This total is slightly lower than total GSL costs, which also include expenses for collections, computers, and administrative allowances to guarantee agencies and educational institutions. These "other" costs are approximately $50 million in fiscal year 1981.

The growth in GSL has several principal causes: a series of legislative changes over the past dozen years designed to maintain GSL as a viable source of student credit; the unprecedented level of interest rates in the economy; and well-publicized problems in the rate of default by student borrowers.

Legislative Changes

Congress first authorized GSL in 1965 as part of the Higher Education Act to provide incentives to private lenders to make loans of convenience, primarily to students from middle-class families. Federal costs, it was assumed, would be minimal: borrowers with family income below $15,000 would qualify for the in-school interest subsidy and the federal government would guarantee the lender against borrower default.

Since initial passage, the legislation has been altered to: ensure an adequate rate of return to lenders, make more students eligible for the in-school subsidy, provide greater incentives for states to establish guarantee agencies, and gear permissible loan amounts to the rising costs of going to college.

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The first substantive changes came in 1968. When market interest rates began to rise above historical levels, Congress increased the interest charged to student borrowers from 6 to 7 percent. It also created a shared federal/state responsibility for the guarantee of loans: in states that established a guarantee agency, the federal government would cover 80 percent of the default cost and states were to be responsible for the remaining 20 percent. Where no state agency existed, the federal government would continue to insure lenders directly at 100 percent of the claim.

In the next year, as market rates continued to rise, Congress provided for a special allowance to be paid by the government, not the borrower. Under this plan, each lender would receive a payment based on the dollar value of all student loans not yet repaid; the amount of the special allowance each quarter was to be set by a committee of government officials, but was not to exceed 3 percent (on an annual basis) of the value of the lender's student loan portfolio.

The Education Amendments of 1972 created the Student Loan Marketing Association (Sallie Mae)--a private corporation--and authorized it to borrow under federal auspices. By allowing lenders to sell or borrow against their student loan paper, Sallie Mae was intended to encourage participation by lenders who otherwise might be reluctant to make student loans because of their relatively low yield and long duration.

Also included in the 1972 Amendments was a requirement that students must demonstrate financial need before receiving a GSL. However, confusion about which students were subject to this needs requirement and insufficient time to prepare for its implementation led to a virtual halt in GSL lending during the summer of 1972. In order to permit resumption of normal lending activity, emergency legislation to suspend these provisions was enacted in August 1972, and they were later permanently dropped.

In 1976, the income ceiling under which families could qualify for the federal in-school interest subsidy was raised from $15,000 to $25,000* in recognition of the increase in the average income of parents sending their children to college.

The 1976 Amendments also provided greater incentives for states to establish guarantee agencies, based on evidence of lower default rates on loans made under state auspices. These incentives apparently worked; almost all states now have a guarantee agency and over 90 percent of all new GSL lending is now initially guaranteed by a state-authorized agency, compared to 60 percent in fiscal year 1976.

Finally, the 1976 legislation made the special allowance more responsive to changes in market interest rates by tying it automatically to quarterly changes in the rate for 91-day Treasury bills. The formula that was adopted

*Income as defined for GSL eligibility made allowance for differences in family size and certain expenditures. For a family of four, the GSL income ceiling of $25,000 translated into about $31,000 of adjusted gross income, as defined in the tax code.

provides for a total return to lenders (that is, student interest rate plus special allowance) of the Treasury bill rate plus 3.5 percent. In addition, the 3 percent cap on the special allowance was raised to 5 percent.

Probably the most far-reaching change, however, occurred in 1978 when the Middle Income Student Assistance Act (MISAA), in addition to changing eligibility for the Basic Grant program, also totally removed the income ceiling on GSL.

Elimination of the income ceiling has had several major effects which help to explain why GSL volume has jumped so remarkably in the past few years. Most obviously, a new group of students became eligible for subsidized loans, and there are indications that increasing numbers of high-income students and families are availing themselves of the opportunity.

Note On Who Is Borrowing

Since the passage of the Middle Income Student Assistance Act of 1978 and the elimination of the income ceiling for determining GSL eligibility, systematic information on the income of borrowers and their families is no longer available. The Virginia Education Loan Authority, however, is one agency that continues to collect family income data on its loan application form. The Virginia data show that borrowing at all income levels has increased substantially since MISAA, more than doubling in each income group. The expansion of subsidized loans since MISAA has obviously benefitted many who were previously ineligible for the program (that is, their family income was above the $25,000 cut-off). At the same time, it has benefitted many lower-income families, presumably satisfying a considerable pent-up demand that could not be met under the conditions that prevailed before 1978.

The greatest proportionate increase in GSL borrowing, however, seems to have been in the higher-income brackets. In 1979, the first year after MISAA, less than 10 percent of the Virginia borrowers indicated family income above $40,000; the figure rose to 20 percent in 1980. The upward trend between 1979 and 1980 suggests that the well-to-do are becoming increasingly aware of their newly established eligibility for student loans. Growing publicity about the program and increased investment consciousness during a time of continued high inflation and high interest rates appear to be spurring the trend.

But removal of the income ceiling has had other effects as well. It has allowed banks to drop the previous system of double bookkeeping for subsidized and unsubsidized loans. Perhaps as important, the dynamics of the GSL application process have changed since students can now walk into a bank and apply for a loan without their parents being asked to provide financial information. Each of these factors has contributed to the growth of GSL lending activity since 1978.

In 1979, to reflect the skyrocketing interest rates in the economy and to encourage lenders to remain in the program, the lid on the special allowance payments was lifted entirely. Expanding the special allowance has stimulated lenders to increase supply sufficiently to keep up with borrower demand, which has burgeoned as rising interest rates make the fixed-rate GSL more attractive.

In passing the Education Amendments of 1980 after protracted debate, Congress responded to pressures to curb GSL costs by raising the interest rate charged to new borrowers to 9 percent and shortening the grace period before the borrower begins repayment to six months. It also halved the amount of the special allowance on loans funded directly by state agencies that use revenue bond proceeds. This last change addressed the problem of arbitrage, which had permitted some states to reap substantial windfalls at federal expense because of the difference between the market rates of return they receive on GSL and their low cost of raising funds through tax-exempt bonds.

In recognition of the continuing increases in college costs, the 1980 Amendments also raised the cumulative amounts that students could borrow in GSL. For undergraduates, the maximum was raised to $12,500 from the previous $10,000 limit, and total GSL borrowing limits for graduate/professional students are now $25,000, up from the previous $15,000. Annual GSL limits remained unchanged: $2,500 for undergraduates and $5,000 for graduate or professional school students. In addition, separate limits were newly established for undergraduate students who are independent of parental support--$3,000 per year up to $15,000 cumulatively.

The 1980 Amendments also authorize a GSL option in which parents of dependent, undergraduate students can now borrow up to $3,000 per year ($15,000 total) to help in the financing of their children's undergraduate costs. The interest rate for these loans is pegged at 9 percent--the same as the student borrower rate--but repayment commences within 60 days of disbursement. Thus, no in-school subsidy is available to parental borrowers. However, as with student loans, the federal government would pay a special allowance to assure the lender a market rate of return.

Finally, the 1980 legislation envisioned a much larger role for Sallie Mae in the collection and consolidation of loans from various sources, and in raising capital for state guarantee agencies. It also extended Sallie Mae's authority to borrow from the U.S. Treasury through the end of fiscal year 1984.

In addition to legislative changes, increases in interest rates and student default rates have also contributed heavily to GSL costs.

Interest Rates

Since special allowance payments to lenders are now automatically tied to the 91-day Treasury bill rate, when market interest rates rise so do the obligations of the federal government. With unprecedented high levels of interest, special allowance payments have soared.

In fiscal year 1981, special allowance payments will approach $1.5 billion, an increase of about $1.3 billion from fiscal year 1978. Total GSL expenditures have grown by $1.7 billion during this same time period. If interest rates, instead of soaring far into the double-digit range, had remained at 1978 levels (when the Treasury bill rate averaged 7 percent), special allowance payments in fiscal year 1981 would be approximately $800 million lower than presently estimated. Thus, almost half of the growth in GSL expenditures in recent years ($800 million of $1.7 billion) can be linked to the increase in market interest rates and its effect on GSL special allowance payments.

Defaults

During the mid-1970's, the growth in GSL costs was fueled by the astounding increase in the number of borrowers who defaulted on their repayment obligations; the default rate climbed well above 10 percent of all borrowers entering repayment. Concerns about the default rate led to a set of remedies, including expansion of the corps of government collection agents, greater use of outside collection agencies, eligibility restrictions for institutions with abnormally high default rates, and a heavier reliance on state guarantee agencies (which appear to have better record of collections than the federal government).

These efforts have, in recent years, resulted in reduced concern about GSL defaults. Expenditures for defaults have shown only moderate growth, as indicated in the table on page 2. However, the Administration's fiscal year 1982 budget estimates that default claims in fiscal year 1982 will nearly double over fiscal year 1981 levels and that claims related to death and disability will increase eightfold. These estimates of growth in default-related claims derive mostly from the Administration's assumption that parental borrowing will blossom to over $2 billion by fiscal year 1982. (Parental loans are assumed to be subject to much higher death and disability claims than student loans for obvious age-related reasons; defaults should occur more quickly because repayment begins immediately after disbursement.)

The Administration's prediction of parental loan volume, however, appears overly high (especially if parents are to be charged a market rate of interest), and the default-related estimates are, as a consequence, probably overstated. If, on the other hand, the Administration's estimates prove accurate, control of default costs may again become a major public and Congressional concern.

APPENDIX B

A DISCUSSION OF COST-CUTTING ALTERNATIVES

Congress, in debating the Administration's and other proposals to reduce GSL costs, will want to consider the impact of these alternatives on lenders, students, and educational institutions.

What will happen to the supply of loans and what is the banks' tolerance for change? Student loans represent only a small portion of the investment portfolio of most banks and it is possible that additional paperwork or less profitability will lead to a mass exodus of lenders from GSL. Many of the past legislative changes in GSL have been in response to threats by lenders that they were about to pull out of the program. Policymakers must also be cognizant that small banks will have a different set of concerns from large lending institutions.

If loan volume is reduced, which present borrowers will be unable to borrow? Equity considerations suggest that to the extent that GSL is subsidized, available loans should be targeted on students who need the funds. But many lenders, if forced to cut back, may well choose to give first priority to families who are their best customers. And determination of need can be a tricky business--is a middle-class student attending an expensive private college more or less needy than a poor youngster going to the local community college? Proposals may vary widely in their effects on students at high- and low-cost institutions.

Proposals may also be compared in terms of the short- and longer-range cost savings that would be achieved; the timing of cost reductions will vary among proposals. Some of the most reasonable and cost-effective proposals may show little savings until five to ten years from now. How important is it to achieve large cost reductions in the next year?

Alternatives should further be evaluated on the basis of their administrative feasibility. Some past efforts to reform GSL, such as the proposed requirement of a needs test in 1972, failed because insufficient attention was paid to how the plan could best be implemented. Care must be taken in designing a plan that is workable. Otherwise, the entire GSL program could come to a halt, as it did in 1972.

Finally, if policymakers are bent on proposals which could dramatically reduce GSL volume, they must also consider what alternative sources of lending might be available for students and their families. Two loan sources are of particular importance. One is the National Direct Student Loan (NDSL) program, which since 1958 has provided federal funds to educational institutions for the purpose of making low-interest loans to needy students. NDSL default rates, however, are substantially higher than in GSL, and current budget stringency limits the growth potential of NDSL, which depends on direct annual appropriations. Although the 1980 Amendments did authorize alternative NDSL financing through federal borrowing, the proposed crackdown on federal credit activity greatly diminishes the likelihood that this borrowing authority will be utilized at least in the next few years.

The other potential major loan source is the parental loan program authorized in the Education Amendments of 1980. But parental loans are untested. While some states are beginning to establish the basis for a parental program, realistic expectations suggest only modest growth at least for the next year or two. Growth prospects are further limited if interest rates charged to parents are set at market levels, as proposed by the Administration. At present, most states are proceeding very cautiously in setting up parental loan programs because of their uncertainty about future federal policy in this area.

Most of the GSL cost-cutting alternatives presently being suggested by the Administration, the Congress, or other groups fall into one of the following categories: 1) Make GSL less attractive to borrowers; 2) Restrict student eligibility for loans; 3) Reduce the GSL rate of return to lenders; and 4) Limit the volume of GSL lending. The first two categories are aimed primarily at reducing unnecessary or excessive borrower demand for loans (although they might also reduce banks' willingness to lend.) The latter two would reduce the opportunities and incentives for lending, thereby affecting the supply of GSLs. These types of cuts can be made either separately or in combination. Each alternative has drawbacks which should be considered in developing a GSL cost-cutting package.

1) Make GSL less attractive to borrowers. Potential borrowers may be discouraged from applying for a GSL by: raising the interest rate charged to borrowers; shortening the "grace period" after the borrower leaves school but before repayment begins; altering the provisions for the in-school interest subsidy; or eliminating existing deferment provisions.

The 1980 Amendments moved in this direction by increasing the interest rate and shortening the grace period. Some suggest that the interest rate should be further increased to, say, 10 percent. Others would make the interest rate vary with market conditions--for example, charge student borrowers the current Treasury bill rate minus one or two percentage points. Changing the interest rate, however, results in very little cost savings in the next several years--less than $50 million annually--unless the in-school subsidy provisions are changed as well. (Whatever change is made in the rate charged to the borrower, the combined government obligation for in-school and special allowance payments would be the same while the borrower remains in school.)

Instead of lifting interest rates, the Reagan proposal would eliminate the in-school interest subsidy for all new loans. Banks and borrowers would be left to negotiate whether in-school interest would be paid on a current basis or "capitalized" (that is, allowed to accrue and added to the principal of the loan). This proposal would reduce federal fiscal year 1982 costs by at least $300 million below current projections, and annual savings in fiscal 1984 would mount to $1.6 billion.

The in-school subsidy, however, is the one feature of GSL that remains intact and unaltered from the original 1965 legislation. Before 1978, when there was an income cap on borrowers who could qualify for the in-school

subsidy, lenders were reluctant to make loans which would require billing students individually for their interest obligations while in school. Such loans represented less than 5 percent of total borrowing at that time.

The option of capitalizing the in-school interest would probably not satisfy the cash-flow needs of many lenders, especially small banks. A solution that addresses this cash-flow concern would be for the government to continue providing lenders with interest payments while the borrower was in school, then have the lender reimburse the government for these in-school interest payments, once the borrower's repayment period began. Cost savings to the federal government over the next several years, however, would be essentially erased.

Also, many students may be hard-pressed to make interest payments during the school years, and if the interest is deferred, compounded, and added to the repayment obligation, the resulting levels of increased indebtedness could be excessively burdensome for some students. Some observers, in fact, believe that what the government saves by increasing the freight on the student borrower may be offset by increased default rates down the road.

One other method for reducing the attractiveness of GSL borrowing should also be mentioned. The GSL legislation permits borrowers who enter into specified types of activities after leaving school--such as military service or certain types of teaching assignments--to defer beginning repayment of their loan, usually for periods up to two or three years. During the deferment period, the federal government continues to make in-school interest and special allowance payments. The 1980 Amendments added to the list of activities qualifying for deferment, provided for a grace period after deferment, and allowed borrowers under the parental option to defer their GSL obligations in selected instances.

Some of these deferments now appear outmoded or unwarranted. (For example, why should parental borrowers be able to defer their repayment commitments?) While eliminating all of the existing deferment provisions would save less than $50 million annually, these implicit subsidies should at least be scrutinized as to their effectiveness, and modified or eliminated where appropriate.

2) Restrict student eligibility for loans. Two principal ways for limiting GSL eligibility are reinstitution of an income ceiling, or a requirement that students and their families must demonstrate financial need to qualify for a loan.

If an income cap were reimposed at $40,000, costs in fiscal year 1982 would be reduced by approximately $150 million, and by fiscal year 1984 the annual cost savings might be $900 million. Annual GSL volume might be reduced by 20-30 percent below current projections.

The advantage of an income cap is that it is easily understood and apparently not difficult to administer, based on the pre-1978 experience. On the minus side, an income cap is an arbitrary and imprecise proxy for need;

it allows for no gradation in assessing the relative amount needed by different potential borrowers. For this reason, students at high-cost institutions might be particularly disadvantaged by reinstitution of an income cap. An income cap is also not an effective cost containment tool for dealing with one of the realities of higher education today--the growing proportion of students who are financially independent of their parents. Almost all independent students--probably constituting at least one-third of the present GSL borrower population--would qualify for a loan on the basis of their income regardless of other measures of need.

Under the Administration's proposal, eligibility for student loans would effectively be limited to the amount of a student's financial need, defined as cost of attendance minus financial resources available to the student (including the family's expected contribution and other assistance). The government would pay a special allowance only on the amount loaned for which need could be demonstrated.

This proposal would substantially reduce GSL activity for several reasons. With no special allowance, banks would presumably be unwilling to lend to non-needy students. Needy students, while eligible, would often not receive as much as they do now. And students with a limited amount of need--less than $1,000 or so--might find banks reluctant to make such small loans. The lender's fixed costs per transaction could make small loans nonprofitable.

Successful implementation of a needs test in GSL would require avoidance of the pitfalls that occurred in 1972. Namely, there must be sufficient lead time and educational institutions--not banks--must do the need calculations.

The savings resulting from a needs test, however, could be substantial, since it appears that at least one-third of current GSL borrowers would probably not qualify on the basis of need. If these students were no longer eligible, costs in fiscal year 1982 would be reduced by as much as $300 million, and fiscal year 1984 costs would fall by $1.5 billion. If, in addition, some present GSL banks decide to lend less because of increased paperwork or dwindling profit margins, savings would be even greater.

It has also been suggested that the income cap and need analysis proposals could be combined. For example, students with family income of less than say, $25,000, could be automatically eligible for the in-school interest provisions while students with family incomes above the cap could qualify for subsidized loans to the extent of their documented need. Such a proposal would produce savings of $200 million in fiscal year 1982 and $1 billion by fiscal year 1984. Under such a plan, however, the issue of how to consider the needs of independent students remains troublesome.

3) Reduce the GSL rate of return to lenders. The primary means for reducing the return for GSL lenders is to reduce the special allowance. Since the notion of linking the special allowance to the Treasury bill rate has gained general acceptance, the way to cut the allowance is to reduce the amount provided by the formula. Presently, the total return to lenders--the student

interest rate plus the special allowance--is pegged at the Treasury bill rate plus 3.5 percent. If, for example, the formula were reduced by one percentage point, federal expenditures in fiscal year 1982 would be $200 million less, and savings in fiscal year 1982 would be $350 million.

There can be little doubt that establishment and augmentation of the special allowance over the years has been a crucial element in keeping lenders involved in GSL. Most lenders further assert that the present cost of money implies an extremely narrow yield on their GSL investments and that any diminution in the special allowance would lead to their withdrawal from the program. However, there remains the question of how large the special allowance needs to be to ensure adequate lender participation. In the past two years, in a period of extreme credit tightness and with a multitude of attractive investment opportunities available throughout the economy, GSL lending has doubled.

But assessing the margin of GSL profitability is a complex issue. Cost of money and administrative expenses may vary widely for lenders according to their size, geographic location, tax status, and other characteristics. Small banks in largely rural states often have a lower cost of money than the big lending institutions in New York City. But their administrative costs per loan may be higher. If the most important factor in predicting profitability could be determined, it might then be possible to provide a differentiated special allowance. For example, if the evidence suggests that profitability is most closely related to the size of a bank's student loan holdings, then the special allowance formula could be geared to this factor, with the highest percentage paid for the first student loan dollars in the portfolio. The difficulty here, of course, is reaching agreement on the index of profitability.

The Reagan proposal does not alter the amount of the special allowance per dollar loaned. However, it does eliminate entirely the special allowance for loans to non-needy students and for loans to parents.

4) Limit the volume of GSL lending. A direct method for limiting GSL volume would be to impose a ceiling on the amount of new loans each year that are guaranteed by the federal government, thus removing GSL from the ranks of federal entitlement programs. Through an allocation process, lenders would be notified of the annual number and/or amount of loans which would be guaranteed against default, or for which subsidies would be paid. If the volume of future lending, for example, were limited to the current level of $7 billion, fiscal 1982 expenditures would be reduced by a modest $150 million. But cost savings over the next five years would be substantial relative to present projections--$1.1 billion annually by fiscal 1984.

Devising an equitable allocation scheme, however, might prove to be an extraordinarily difficult task. Of equal concern is the method by which lenders decided who could borrow. The likelihood is that under such a plan

new loans would be tilted toward higher income students and families (the better credit risks and the banks' regular customers), unless an income-related criterion or needs test was simultaneously imposed.

Another means for limiting GSL is to reduce the amount that a student can borrow, either annually or cumulatively. But cutting back on loan limits saves very little money.

The Reagan proposal presents a more indirect way of limiting overall GSL activity by abruptly ending (much earlier than called for by the Education Amendments of 1980) Sallie Mae's authority to borrow through the U.S. Treasury. At least in the short run, Sallie Mae is not likely to be able to raise as much money in the private capital market as through the Treasury. To the extent that many lenders have come to rely on Sallie Mae as a ready source of liquidity for their GSL portfolio, a truncated Sallie Mae would eventually reduce lender participation in GSL.

APPENDIX C

ESTIMATED ANNUAL SAVINGS FROM
COST-CUTTING ALTERNATIVES

The following table summarizes the estimated cost savings that would result from the various alternatives discussed in the preceding section. These are College Board estimates and may be at some variance with estimates of the Administration, Congressional Budget Office, or other organizations and individuals.

(in millions of dollars)

	FY 82	FY 84
Current Policy	$3,300	$5,000
Reagan Proposal	800	2,300
Alternatives		
Raise interest rate of new loans to 10 percent	*	100
Eliminate in-school interest subsidy on new loans	300	1,650
Place $40,000 income ceiling on eligibility for in-school subsidy	150	900
Limit subsidized loans to "remaining" financial need	300	1,550
Place $25,000 income cap on automatic eligibility for in-school subsidy; students with higher incomes could qualify on basis of need	200	1,000
Reduce special allowance payment formula by one percentage point	200	350
Limit guarantee authority to FY 81 lending level	150	1,150

*Less than $50 million

In considering these figures, please note that:

1) The cost savings associated with the various alternatives are not additive, as there is overlap in the populations affected by these proposals.

2) These estimates do not fully include the possible impact of lenders withdrawing from GSL because of the cumulative burden of these additional restrictions.

3) The estimates provided here assume a gradual reduction in market interest rates (approximately one percentage point per year) and a modest increase in the volume of lending under current law ($1 billion additional lending in each succeeding year). Alternative interest rate or lending assumptions may have significant impact on the current policy projections or the dollar value of savings resulting from these various alternatives.

4) Implementation is assumed to begin on October 1, 1981. An earlier date would result in greater savings than indicated here.

APPENDIX D

CONSTRUCTING AN INDEX OF BORROWER ELIGIBILITY

If eligibility for subsidized Guaranteed Student Loans is to be restricted according to financial need, the following approach might be considered.

The first part of the calculation would be to estimate family ability to pay based on these steps:

1. Determine the student's dependency status and whose income will be considered in the determination of eligibility. The standard test of dependency status, used for other federal programs, would be applied to GSL eligibility determinations.

2. Determine adjusted gross income from the appropriate tax form. Non-taxable income from sources like public assistance, child support, pensions, Social Security, etc., would not be included in this determination.

3. Deduct a "family size offset," based on the Bureau of Labor Statistics low or perhaps moderate budget standard, and include in this offset estimated average federal, state, and local taxes.

4. Multiply the remainder by an appropriate "taxing" rate to be determined as a matter of further public discussion.

5. If more than one family member is attending a postsecondary educational institution that charges tuition and fees, divide the resulting amount equally.

The procedures described above generally follow those incorporated in other need analysis methods but differ in some significant ways, reflecting an assumption that the needs test for a guaranteed loan should be somewhat simpler and more flexible than for more heavily subsidized forms of aid such as Pell Grants or even National Direct Student Loans.

Non-taxable income is not included in this approach, creating a possible "loophole" through which high-income families who have been able to invest in various forms of non-taxable income-producing assets would benefit. However, information about non-taxable income is among the most difficult to collect, verify, and interpret. Elimination of routine consideration of this income source would benefit a few wealthy families; it would also reduce unnecessary intrusion into the financial circumstances of many more low-income families. Some critics of the current process claim that this intrusion is a major factor in the lower-than-expected participation of low-income students in postsecondary education and student aid programs.

When the campus financial aid administrator "signs-off" on the student borrower's eligibility (see procedure described below), there would be an opportunity for consideration of non-taxable income if, in the judgment of the aid administrator, it was of a sufficient level to warrant exclusion from program eligibility.

The proposed approach does not routinely make allowance for other items of family expense considered by prevailing need analysis methods, such as the employment expenses of families where both parents work, unusual medical and dental expenses, casualty losses, etc. This omission is another attempt to reduce the complexity of data collection, analysis, and interpretation. Again, the campus aid administrator could be permitted to make exceptions, providing a "safety valve" for families with substantial expenses in these (or other) areas to receive additional consideration.

Another major exception to the established methodologies is the total exclusion of family assets from determination of their ability to pay. The methodologies exclude some forms of assets from consideration (residence equity, automobiles, life insurance cash value, boats, airplanes, etc.) and then reduce the remaining assets by some measure of "asset protection." The approach suggested here for purposes of GSL eligibility "protects" all family assets from consideration.

The methodologies used to determine eligibility for other forms of aid use family size offsets to reflect the normal, ongoing expenses that must be met in the course of living and maintaining a household. These offsets are based on various "budget standards" promulgated by the Bureau of Labor Statistics (BLS), the Department of Agriculture, or the Social Security Administration, to reflect the typical living patterns of different segments of the American population. The so-called Uniform Methodology uses the BLS "low budget" standard. For determining GSL eligibility, the BLS moderate standard might be appropriate.

Remaining family income would be "taxed" at a percentage rate or set of rates, as in other need analysis systems, to determine the estimate of family ability to pay. Since there is little inherent economic rationale to suggest that one percentage rate is more appropriate than another, whatever rate or rates are deemed appropriate for use in other programs might be used for purposes of GSL eligibility as well. Different rates for dependent and independent students might also be considered.

Having determined the family's GSL index of ability to pay, the maximum loan eligibility could be determined according to the following procedures:

1. Determine the total cost of attendance

2. Deduct the family's GSL index of ability to pay

3. Deduct existing student aid (Pell Grant, state, campus-based, and private), expected student term-time employment income, and payments of Social Security and veterans' benefits.

The remainder, subject to statutory limitations on GSL borrowing, would be the family's maximum loan eligibility.

If the GSL index of eligibility can be kept sufficiently simple, it might be possible to permit self-calculation by applicants through a "table-lookup" similar to that used in the federal income tax procedures, or through straightforward instructions calling for exact values and the full methodology. Sample tables could be made a part of GSL program promotional materials. Statements on how the family should calculate its index might simulate those of the IRS Form 1040.

Because the proposed estimate of maximum loan eligibility would take into account the actual cost of attendance and the aid available from other sources, it would require a review and certification by the campus aid administrator. "Verification" of the GSL index of family ability to pay could be performed as part of that process. For the 4.5 million students who submit regular need analysis documents to the Pell Grant or private agency processors, the GSL index would have been calculated already. For others a copy of the first page of the appropriate tax form could be submitted together with the loan application for purposes of verification. This procedure would permit easy "entry" into the system, possibly through self-calculation, while assuring sufficient oversight through verification to discourage abuse.

As noted earlier, the campus aid officer should be given reasonable discretion to adjust loan eligibility up or down to reflect significant circumstances not adequately dealt with in the procedures described above.

Admittedly, the index of need suggested here is more complicated than a simple "income ceiling" or cut-off for eligibility. It would, however, result in more equitable determinations of eligibility than would an arbitrary income ceiling. For great numbers of applicants it would "piggy-back" on the routine aid eligibility determination processes currently in use for other programs with no additional requirement for data collection from students or families. It would provide an easy, relatively unintrusive method for those not currently submitting need analysis documents to calculate and demonstrate their ability to pay for purposes of GSL determination. And it would meet the criteria of equity and fairness to the borrower, the lender, and the taxpayer that should characterize any modification of the current program and procedures.

TESTIMONY OF EDWARD A. FOX, PRESIDENT

STUDENT LOAN MARKETING ASSOCIATION - SALLIE MAE

The Guaranteed Student Loan Program (GSLP), established in 1965 by the Higher Education Act, represents a cooperative effort between the federal and state governments, the educational institutions, and the private banking and financial system. The GSLP is a program of state and non-profit private agency insurance and federal insurance or reinsurance for loans obtained by students from state and private sources. Under this program, students obtain credit from commercial and thrift institutions, educational institutions, and other qualified lenders which are insured against defaults. The government also provides interest subsidies to the borrower, and pays an additional amount known as a "special allowance" to assure an adequate rate of return to the lender.

The successful achievement of national objectives of providing student credit through the GSLP in the most cost efficient and equitable manner requires leadership from government and the private financial community. Sallie Mae, which spans both the governmental and private lending worlds, provides part of this leadership, directly, through its financial support activities and, indirectly, by setting standards which are widely acknowledged as supporting sound loan origination and administrative policies.

Confronted with rising interest rates and expectations of continued tight money market conditions, lenders are turning to Sallie Mae in increasing numbers to borrow funds offered under the corporation's Warehousing Advance Program. Similarly, expanding loan demand as well as inflation in the administrative costs of servicing loans has resulted in a decision by many lenders to sell their loan portfolios to Sallie Mae. As a result, Sallie Mae's volume has increased dramatically during the past twelve months.

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Student expenses for postsecondary education will increase substantially in the coming academic year. In many instances, in both public and private institutions, the increase will be greater than current inflation rates. Additionally, many states are unable to continue the funding of higher education at the same rate as in past years and in some cases have actually been forced to reduce direct support.

For the student, the dollars to support a year's attendance essentially come from three sources. The first are those dollars contributed out of savings or direct income by the family and the dollars earned by the student. The second include dollars in the form of scholarships and from the state and federal government in such form as grants and social security and VA benefits. The third source, appropriately sought by a parent or a student only after availability of the first two sources has been exhausted, is a loan.

In examining the costs of a guaranteed student loan, there are three participants -- the borrower, the lender, and the guarantor. Any discussion pertinent to the cost of the GSLP is reduced to these three parties.

Budgetary considerations which necessitate the review of the level of federal expenditures in support of the GSLP need not result in a reversal of GSLP policy objectives or heedlessly reduce the incentive system by which loans are delivered. The current student loan delivery system embraces the national delivery system for financial services in general and, with few exceptions, GSLP lenders can be found in every community across the United States. With the support of state agencies as administrators of this program and the cooperation of the secondary market, lender

reluctance to participate in the GSLP has dramatically decreased. Further, many states have made arrangements to provide "last resort" loans to students with the support of financial institutions and the secondary market. Any changes in the GSLP which would have the effect of disrupting this delivery system, would be shortsighted and disadvantage the student.

Program changes can be implemented which are both cost-effective and administratively sound. To the extent that necessary changes are viewed as reasonable and consistent with banking practice, the objectives of the GSLP will continue to be met through and with the support of financial institutions.

Any cuts that reduce income or incentive or changes of an operational or systematic nature that add costs that are not offset by increased yield would decrease lender participation and, if overly onerous, drive lenders totally from the Program. During the past several weeks a number of changes in the GSLP designed to reduce costs to the federal government have been proposed. For example, there has been discussion of a needs test to determine a student's borrowing requirements. If it is the responsibility of a lender to make this determination, there are administrative costs associated with this analysis that could be burdensome and would reduce yield to the lender. Additionally, imposition of a needs analysis could create student demand for a large number of relatively small loans which cost as much to administer as large loans but which generate less income to meet these costs. Bankers have shown a reluctance to originate small loans in recent years

as they recognize the high cost and loss possibilities associated with such lending. Similarly, other proposals would require the student and the parent to each borrow, generally under different terms. For the lender, administering two loans instead of one is twice as costly and with gross income remaining constant, the willingness of lenders to finance the program in this manner is questionable. If each individual loan is relatively small, the probability is that the loans will not be made at all. Some proposed methods of collecting interest from the student or parent rather than from the government many increase costs. Lenders earn a modest return over the life of a student loan with significantly higher costs associated with the loan while in repayment as compared to the more modest cost associated with interest collection from the government when the student is in school. Billing the student directly for interest during the in-school period will add administrative burden to lenders and reduce yield. Other suggestions would reduce the gross yield on a guaranteed student loan. This argument suggests that the government should pay less in support of the GSLP and that the students and the lenders should equitably share the added cost of the burden. Students, as users of the service, would certainly decide for themselves whether to bear the increased burden but lenders, using their own capital and only being nominally profitable in student loans, will not continue to support the GSLP at a loss. The number of active financial institutions in the GSLP has been declining during the past ten years primarily because of inadequate yield and excessive regulation. It is essential that

lenders be induced to stay with the program and that any changes be carefully examined from an operational and cost perspective.

Sallie Mae, as a component of the GSLP delivery system, is a soundly administered, cost-effective institution which has shown a capacity for growth and flexibility in responding to the needs of the GSLP. The corporation, in cooperation with the Congress and the appropriate administrative agencies of government, is committed to the GSLP and will support any changes which, in the opinion of the Committee, will make the program more effective in the future. Sallie Mae stands ready to assist the Committee and the Congress in the resolution of the issues concerning the student loan program which will make the GSLP a more effective program.

Coalition For Alternatives in Postsecondary Education

May 15, 1981

Hon. Robert T. Stafford
Chairman
Subcommittee on Education
Committee on Labor and
Public Welfare
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

The Coalition for Alternatives in Postsecondary Education represents a group of national organizations concerned with the efficient delivery of postsecondary education services through the utilization of non-traditional means (such as experiential learning and telecommunications) and to non-traditional student populations (such as adults, the handicapped, elderly, workers, and minorities). Although we applaud the general thrust of S.1108 in seeking to find a middle road that would satisfy the stringent requirements of the budget resolution while preserving the basic goals of the student loan and Pell Grant programs, we are concerned that the draft as proposed rolls back significant steps taken to eliminate inequities historically imposed upon the growing population of adult learners.

Our organizations, joined by most other higher education groups, have fought long and hard to achieve the goal of relative equity in the availability of student aid to an 18-year old attending college and to his or her parent attending the same school. While we concur that the independent student without dependents should rightly have his or her income and assets assessed at a significantly higher rate than that imposed upon the family of a dependent student, we argue strenuously that the economic situation of that dependent student's parent is far more akin to that of his or

PARTICIPATING ORGANIZATIONS: American Society for Training and Development, Association for Innovation in Higher Education, Clearinghouse of Community Based Free-Standing Educational Institutions, Council for Advancement of Experiential Learning (CAEL), Free University Network, INTERVERSITAS, National Center for Educational Brokering, National Center for Public Service Internship Programs, National Manpower Institute, Society for Field Experience Education, Union for Experimenting Colleges and Universities, Urban Corps National Association
ASSOCIATED ORGANIZATIONS: American Association for Higher Education, College Entrance Examination Board, Educational Testing Service, National Commission for Cooperative Education, Office on Educational Credit of the American Council on Education

her child than that of the independent student without dependents. The parent or married adult has little more, if any, real discretion over the use of income and assets for his or her own education than for that of a child. The obligation of the parent to provide an education for his or her child is certainly substantial, but so is the obligation of that parent to take such steps as may be necessary to secure the best possible life for his or her family. Furthering one's education should not be made more difficult once one becomes an adult; indeed, our society must encourage persons beyond the traditional college age to continue their learning to insure that we have a proper reservoir of persons with current and marketable skills. Surely the adult who wishes to continue his or her education to improve the ability to support one's family, or the single parent seeking to enter the job market, ought not be discriminated against in the allocation of aid.

The law prior to the 1980 reautnorization left the establishment of assessment rates for independent students, with or without dependents, at the discretion of the government. The result was the establishment of a rate more than four times as onerous for the parent as for his or her child. S.1108 would restore the likelihood of this imbalance, and the imposition of this inequity.

We most strongly urge the deletion of Sec. 4(d) to protect the legitimate needs of the new majority in American postsecondary education.

Sincerely,

Robert Sexton
General Secretary

plc

bcc David Morse
Rick Jerue

CITIBANK

Citibank (New York State), N.A.
28 East Main Street
Rochester, New York
14614

Stephen C. Bikton
Vice President

May 15, 1981

Mr. David Morse
Senate Education Subcommittee
309 C Senate Courts Building
Washington, D.C. 20510

Dear David,

Per your request I have answered three questions related to Implementation of proposed legislation for the Guaranteed Student Loan Program. The questions and their answers are as follows:

Question #1

Will you make parent loans that carry a rate of 14% to the parent?

Answer

Assuming that the 14% parent loan will include a government subsidized special allowance that will bring the total yield to the lender to T-bill plus 3.50% (special allowance would not be paid at times when T-bill plus 3.50% is less than 14%), we plan to participate in the parent loan program. This decision assumes that the parent loan regulations do not include costly up front procedures for the credit decision (such as credit scoring, credit bureau reports, etc.). Extensive credit decision procedures would be costly and may change the decision to offer the product. Of course some form of credit check must be performed in order to hold down the default rate.

Question #2

If a needs analysis is implemented what is the minimum size loan you would make?

Answer

In order to maintain a minimum level of profitability in our student loan program we must originate loans with average balances of approximately $2,000. This is because our

revenues are based on balances but it costs us the same to process a $1 loan as it does a $2,500 loan. Hopefully implementation of a needs analysis test would not reduce the size of the average loan disbursed below $2,000. However, if it does, we may have to consider setting a minimum loan size in order to maintain a reasonable average loan size.

Question #3

Is a July implementation date for the new regulations possible?

Answer

This depends upon which bill is implemented. S-1109, the administration bill, would be difficult for us to implement July 1st because we would need time to make system changes to allow us to accrue and capitalize interest for unsubsidized loans. (Additionally it would be extremely difficult to implement this procedure for all new loans, instead of just for first time borrowers. Implementation of this proposal for all new loans means we would have to track both subsidized and unsubsidized loans for an individual borrower).

We could probably implement S-1108 by July 1st assuming that the regulations were published on a timely basis and the schools are ready to begin performing needs tests.

A July 1st implementation would require a great deal of hard work by everyone, publishing of regulations within the next two to three weeks, and most importantly a determination that July 1st is the date within the very near future (i.e. a week). Adequate lead time must be given in order to implement on an orderly basis and also to communicate to everyone involved that applications for loans pertaining to a period of education beginning after July 1st will be subject to the new regulations. We are already receiving applications for the fall term. If a determination is not made within the next week (i.e. approved by Congress and the President) as to what changes to the GSL Program will be made, I do not think a July 1st implementation date is realistic.

Sincerely,

Stephen C. Biklen

Stephen C. Biklen
Vice President

SCB:ng

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Office of the Executive Director

May 12, 1981

The Honorable Robert Stafford
Chairman, Subcommittee on Education,
Arts and the Humanities
309 D Senate Court
Washington, D.C. 20510

Dear Senator Stafford:

The National University Continuing Education Association and the Adult Education Association appreciate the need to control costs in the Pell Grant program as required by the Senate Budget Resolution. However, we strenuously object to the provision in S. 1108 which repeals sections in both the Middle Income Student Assistance Act and the 1980 Amendments which provide equity for independent students, particularly those with dependents.

Adult working students, a high proportion of whom are women and minority group members with children of their own, are now the majority in higher education. It does not make sense for the federal government to return to a policy of discrimination toward the largest and fastest growing segment of higher education today. We believe the policy of the federal government should be to help the neediest students first, whether independent with dependents or dependent.

By repealing the third sentence of Section 482(c) as S. 1108 requires, the Subcommittee is discriminating against independent students by suggesting differential treatment in terms of assets, taxation allowances, and subsistence requirements for independent students and families of dependent students.

Before MISAA, half-time students enrolled in a degree program, many of whom are adult, independent students, were eligible for Basic Grants but the regulations were so discriminatory in terms of assets, subsistence allowance and taxation of discretionary income that very few legally eligible half-timers received aid. MISAA resolved part of the problem and the 1980 amendments addressed the rest. Changes in the law were necessary because the regulations did not adequately deal with that discrimination. Financial pressures will not diminish. If decisions are left to the Department via regulation, history could very well repeat itself at the expense of independent students.

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1981 Annual Conference
April 12-16, Colorado Springs, Colorado

Again, we recognize the need for fiscal restraint. However, there are more equitable ways to economize than by discriminating against independent students.

Sincerely,

Kenneth E. Young
Executive Director, National
University Continuing
Education Association

Lloyd H. Davis
Executive Director
Adult Education Association

cc: Members, Subcommittee on Education, Arts and the Humanities
The Honorable Carl Perkins
The Honorable Paul Simon

AICS

Association of
Independent Colleges and Schools

President
Stephen B. Friedheim, CAE

STATEMENT

BY

STEPHEN B. FRIEDHEIM, PRESIDENT

ASSOCIATION OF INDEPENDENT COLLEGES AND SCHOOLS

- AICS -

BEFORE

THE SUBCOMMITTEE ON EDUCATION, ARTS AND THE HUMANITIES

OF

THE COMMITTEE ON LABOR AND HUMAN RESOURCES

U. S. SENATE

MAY 11, 1981

Mr. Chairman, and members of the Subcommittee:

I am Stephen B. Friedheim, President of the Association of Independent Colleges and Schools (AICS). On behalf of the 525 member institutions of AICS, a national organization, I wish to express our appreciation for the opportunity to comment on S. 1108, S. 1109, and student aid issues.

We feel we share with the Committee a deep concern about the student and institutional impacts of the budget proposals of the Administration. Before proceeding to those specifics, I would like to describe for background purposes that area of postsecondary education with which AICS and its members institutions are involved.

AICS

The Association of Independent Colleges and Schools (AICS) was founded in 1912. Its present membership includes some 525 institutions, enrolling approximately 400,000 students. All the institutions are postsecondary, with approximately 25% of the institutions being degree-granting. The programs of education offered in the institutions are predominantly career-oriented, with such areas, for example, as secretarial science, business administration, accounting, and data processing. All AICS institutions are non-public institutions. Predominantly the institutions, by form of governance, are proprietary, although a significant number are organized as tax-exempt

institutions. In common with all non-public institutions, they are either entirely or primarily tuition-dependent for operating revenues.

Because there is no "typical" AICS institution, as there is no "average" business school, it is perhaps a little more difficult to premise my remarks in the institutional framework. In contrast with the more conventional associations normally associated with the umbrella of the American Council on Education (ACE), such as the land-grant colleges (the National Association of State Universities and Land-Grant Colleges), the junior colleges (the American Association of Community and Junior Colleges), the great research universities (the American Association of Universities), the state colleges (the American Association of State Colleges and Universities), or the more conventionally organized independent colleges, largely four-year institutions (the National Association of Independent Colleges and Universities), there is tremendous diversity among AICS institutions.

Often well known, for example, are the Katharine Gibbs Schools in Rhode Island, New York, New Jersey, Pennsylvania, and Massachusetts, which long have been known for the quality of their secretarial graduates. Other AICS schools include Johnson & Wales, the four-year institution in Rhode Island. With the permission of the Committee, and for the completeness of the record, I would like to file a copy of the current

Directory of Institutions published by the Accrediting Commission of AICS. It might be helpful to the members of the Committee to have available the names of member AICS institutions in each of the respective states or districts.

BUDGET REALITIES

For the first time since the initiation of student aid programs, beginning in 1958, through the landmark legislation of 1965 and 1972, the Committee is faced with the necessity of modifications which can be reconciled with the budget decisions of the Congress. We are gratified by the Chairman's observation that the "changes be fashioned in a manner which affords the neediest students maximum opportunity for access to higher education through the Pell Grant program and retains a viable system of student loans." We understand the necessity for decision. We hope we can contribute to the process.

GSL--HIGHEST PRIORITY

The availability of a realistic and accessible GSLP which remains attractive to the lenders is the overriding concern of AICS. Any limitations on the GSLP which would involve "income capping", "needs determination", or sacrifice or deferral of in-school interest result in some hard eco and political choices.

ADMINISTRATION GSLP PROPOSALS

If the Administration can succeed, through measures such as S. 1109, in making the GSLP sufficiently unattractive to the banks, so that private capital will no longer be available, the entire GSLP can be effectively eliminated. If that is the undeclared goal, then one need not bother about serious consideration of such policy issues as income capping, or reducing or shifting the cost of the in-school interest subsidy on loans to students, or the implementation of parental loans. We already have the experience of the early 1970's when the "needs test" was introduced which complicated the matter and set up two classes of loans. As you may remember, the administrative costs went up and the banks lost interest in the GSLP. Very likely student loans are currently attractive to the banks because of the current sluggish demand for consumer loans for housing, automobiles, and appliances. If the economy improves, as the Administration promises us, it is all the more likely that, faced with a complicated set of needs testing, the banks will have additional inclination to abandon the GSLP.

DISCRETIONARY PRIVATE CAPITAL IS VITAL TO GSLP

We feel it is important to underscore the reality that the GSLP is dependent on the discretionary flow of <u>private</u> capital. It is our experience that private capital will dry up if the loans become administratively expensive and burden-

some to the banks. Any return to complicated needs testing, in our opinion, will dry up the source of private capital. The cost of this private capital is the result of a balancing of interests in which the role of the government is essential. The key policy questions are what portion of the private capital cost (i.e., interest) will be paid directly by the student borrower and how much will be paid by the government to the lender. If the special allowance to the lender is eliminated, the GSLP will disappear and any further consideration of interest cost balancing or limitation is unnecessary because by the mere disappearance of the program the student interest subsidy question becomes moot.

SECONDARY MARKET MUST HAVE CONTINUAL CAPITAL ACCESS

We note the essential role in the process of the Student Loan Marketing Association (Sallie Mae). Without Sallie Mae, there is no facility to purchase student loan portfolios from the banks when the loans enter the repayment period. It is our understanding that student loans remain attractive to banks because the cost of administration of the loans is minimal while the student is in school and prior to the payback period. Sallie Mae performs a vital secondary-market function of purchasing the loan portfolios as the student enters the payback period. It takes over the servicing of the loans with the resultant savings because of the scale of administration.

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We believe that Sallie Mae neither increases nor decreases loan volume. Sallie Mae's function is to respond to the demand for guaranteed student loans. Obviously, that demand is high. We do not think that there is sufficient data to support the allegations that many people are getting wealthy by borrowing $2,500 to attend a one-year vocational school by paying 9% interest on the GSLP and reinvesting the $2,500 in the money market. The 6% differential to such a manipulator might, at the most, mean $100 or $120 in such a scheme for a student in a one-year vocational school. I seriously doubt that a career-oriented student in an AICS school, working and going to school, has the time to indulge in such a scheme on any grand scale, let alone become prosperous and affluent.

VOCATIONAL SCHOOL PROBLEMS WITH SALLIE MAE

There are some problems with regard to the attitude of Sallie Mae on certain minimal requirements on the average level of indebtedness for the purchase of bank portfolios. These particularly affect students borrowing only for one- or two-year programs. As the Committee knows, Sallie Mae, as a general proposition, has determined that to buy profitably a portfolio of loans from a bank prior to the beginning of the payback period, there is required an average level of indebtedness of approximately $4,300. Obviously, a one-year vocational student with a maximum loan availability of $2,500, who attends

a vocational school for one year and then goes to work, will never borrow more than $2,500. On the other hand, the student in a four-year program obviously will borrow far in excess of the average level of indebtedness of $4,300. Thus, loans to vocational students tend to drag down the average level of indebtedness in a bank's portfolio. Because of this, some banks have been reluctant to make loans to vocational students. While this is a serious and ongoing concern, we suggest that this is not the propitious time to address that question. We do, however, feel that it is appropriate to note it for the record. If it cannot be resolved, we suggest that oversight hearings might be appropriate.

"TRULY" INDEPENDENT STUDENT

We regret to see the proposal in S. 1108 in Section 5 which would reduce the borrowing limit for independent students. This seriously impacts on mature working students with families who are "truly" (to borrow a currently overused term) independent. These are not the "in and out" recent high-school graduates who may not currently be living at home.

According to the U. S. Census Bureau Current Population Reports, Series P-20, No. 360, "School Enrollment--Social and Economic Characteristics of Students--October, 1979," one in three college students is over 25 years old. Currently, 72% of students 25 and over attend college part-time, compared

with 17% of younger students. Please see article from The Chronicle of Higher Education (May 4, 1981, page 3), copied and enclosed as Attachment A.

We would hope that the Committee would leave undisturbed the higher borrowing level available to independent students. If additional language is necessary, it would deal with a more precise statutory definition of an independent student. Possibly age itself might be a factor, such as over 21 years old or evidence of income of a certain level for at least the twelve prior calendar months.

We suggest that it is unfair and unrealistic to sweep the truly independent student into the family concept when the independent student has differing financial demands and expectations.

INCOME CAPPING

We feel that if there can be a choice between adoption of income capping and limitation to remaining need or sacrifice of the in-school interest subsidy, then we opt for income capping over either. We would hope that there would be some upward flexibility on any cap which would permit loan access to the extent of remaining need and parental contribution.

However, we can understand and would support abandonment of the in-school interest subsidy if it is the only means to preserve a realistic and accessible GSLP. We urge that any

such drastic restructuring be done only if the GSLP can remain attractive to the banks.

SIMPLIFY NEEDS DETERMINATION

We fear that a complicated needs analysis will be considered onerous by the banks, causing an increased disinclination to participate in the GSLP. If a school begins to assist it, likely under Department of Education GSLP regulations it will be categorized as having a "special relationship" with the lender, further complicating and possibly inhibiting the administration prerogatives of the lender. See GSL Regulations, Sec. 177.200, GENERAL DEFINITIONS, Origination, 44 Fed. Reg. 53870, September 17, 1979.

We suggest that the following three factors could be readily incorporated into a needs index for use with either a system of income capping or of determining remaining need.

1. Adjusted gross income.
2. Number of members in the family unit.
3. Number of persons in the family presently enrolled at least one-half time in post-secondary education.

If we need to choose either income capping, possibly at about $30,000, or remaining needs, we urge the former. Income capping is more responsive because it more flexibly adjusts to the cash flow needs of individual students, particularly mature students over 21. Also, income capping with a

presumption of need allows the banks to make loans sufficiently large for effective portfolio roll-over to secondary market agencies sponsored by the states or Sallie Mae.

The unacknowledged inhibition in limiting the face amount of a GSL to remaining need is the simple economic fact of life that small loans of $600 or $700 are not cost-effective to lenders and are not marketable to Sallie Mae.

MATURE STUDENT DISTINGUISHED FROM KIDS 'N COLLEGES

With more than one in three college students now over 25, there is an increasingly complex population to be served by student aid programs. Let's not be procrustean in application. The conventional family unit approach just is not workable, equitable, or realistic for the mature, independent student. Often these students are late bloomers with recently-defined but nonetheless realistic career aspirations. Often, after one or more semesters in or even a degree from a "college," they turn to vocationally-oriented educational institutions.

The independent vocationally-oriented educational institutions of this country constitute a small but vital increment of the postsecondary educational system. As with any non-public institution, there never has been, as a matter of public policy, any guarantee of institutional self-perpetuation. The premise of independent education, as we see it, is the ability to provide a responsive service to students

and to the public. We feel that we have demonstrated that capability through the effective participation in the various programs of student financial aid which the Congress has enacted. We want to cooperate with the Congress and with the new Administration in making those programs more effective fiscally, educationally, and as a matter of public service. We would like to look forward to working with this Committee and providing particular information which it feels necessary to its deliberations as it responds to the Administration's proposals.

CONCLUSIONS

Foremost in our concern is the continuation of a viable Guaranteed Student Loan Program to which students attending independent vocational schools will have continuing access. We suggest that because the GSLP is based on the liquidity and the flow of private capital, it is vital that the program remain attractive to the banks, both administratively while the student is in school and subsequently when the student enters the payback period.

We would prefer to see a realistic system of income capping in preference to loans being limited to remaining need. This is particularly true for the mature, (truly?) independent student. We would even suggest accruing and deferring interest while in school rather than limiting the amount of a loan to

remaining need. If there is to be a restructuring of the student programs and budget-responsive amendments, we hope that the Committee will examine a flexible set of options which will keep the program uncomplicated and administratively flexible.

We appreciate very much the opportunity of sharing our views with you today. We look forward to responding to any questions you may have or supplying additional data.

Respectfully submitted,

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The Enrollment Boom Among Older Americans: 1 in 3 College Students Is Now over 25 Years Old

The U.S. Census Bureau says that if rates of attendance hold up, the increased number of students over 25 may offset much of the effect of the next decade's decline in the 18-to-24-year-old population

By Anne Hopewell
WASHINGTON

Colleges and universities have increased their enrollments of students over 35 years old by 36.8 per cent in five years, the U.S. Census Bureau reports.

Enrollment rates also are rising in another group of Americans beyond the traditional college age—those from 25 through 34. Nearly one-tenth of the people in that age group are enrolled in some kind of educational component, compared with almost one-eighth 10 years ago, the Census Bureau estimates.

As a result, more than a third of all college students now are 25 or older.

During the five-year period, 1974-79, enrollment of students over 25 grew by about 26 per cent, while the enrollment of students under 25 rose by about 10 per cent, the Census Bureau reports.

Offsetting Loss of 18-Year-Olds

Institutions concerned about maintaining their enrollment levels are looking to the older groups to offset, at least partially, a decline in the populations of 18-year-olds during the 1980's.

"If the enrollment rate of persons 25 years old and over remains at its present level," the Census Bureau's report says, "the number enrolled will increase because the population 25 and over will grow."

Applying 1979 enrollment rates to the projected 1990 populations, the Census Bureau estimates that enrollment of students 25 through 64 years old will increase by 999,000. At the same time, enrollment of those 14 through 24 would decline by 880,000.

The rising enrollment of older students probably will not completely offset losses of younger students, the report notes, because older students are more likely to enroll part time.

At present, 72 per cent of students 25 and over attend college part time, compared with 17 per cent of younger students.

If that pattern continues, the Census Bureau estimates that the increase in enrollment of older students will offset about 70 per cent of the loss in full-time-equivalent students.

Role of Older Women

The bureau's figures confirm the dominant role that older women have played in maintaining college enrollment in recent years. A majority of the older students are women, a large proportion of them enrolled on a part-time basis.

The number of women over 35 enrolled in college increased by 66.5 per cent between 1974 and 1979. In the same five years, the number of women 25 through 34 enrolled in college increased by 38.7 per cent.

Women outnumbered men, 914,000 to 687,000, among students in the 35-and-over age group in the fall of 1979. Only 147,000 of the older women and 81,000 of the older men were full-time students.

Among blacks, the Census Bureau says, 91,000 women and 64,000 men over 35 were enrolled in college.

For both whites and minorities the number of students over 35 amounted to about 1.3 per cent of the total population in that age group.

The enrollment rate for men between the ages of 25 and 34 has declined slightly, from 17.3 per cent in 1969 to 16.4 per cent in 1979. In that period, the enrollment rate for women in the same age group rose from 9.4 per cent to 15.3 per cent.

Among blacks, the enrollment rate in the 25-through-34 age group increased from 7.7 per cent in 1968 to 14.7 in 1979.

Data on younger students in the Census Bureau's report show the extent to which enrollment rates vary with family income.

Among the high-school graduates 18 through 24 years old who are financially dependent on their families, the proportion enrolled in college ranges from 30.8 per cent for those whose family income is under $10,000 a year to 72.5 per cent for those whose income is $25,000 or more.

Difference in Student Income

Also in that group, 44.7 per cent of the whites were enrolled in college, compared with 34.8 per cent of the blacks.

A comparison of enrollment rates for blacks and whites at the same income levels, however, showed no significant differences, the report says, but there were fewer blacks in the higher income levels, which contributed to the blacks' lower overall enrollment rate.

The median family income of dependent college students in the 18-through-24 age group was over $25,000 for whites and $13,077 for blacks.

Data on college enrollment by age, sex, race, and family income were obtained in interviews with members of 54,000 households in 644 sample areas throughout the country and published in the Census Bureau's *Current Population Reports*, Series P-20, No. 360, "School Enrollment—Social and Economic Characteristics of Students: October 1979."

FACT-FILE

Projections Show Increase in Enrollment of Older Students by 1990

Age group	Estimated number in 1979	Projected number in 1990	Projected number in 1990	Projected number in 1990	Change
14 through 17	911,000	1.9%	13,770,000	343,000	– 68,000
18 and 19	2,844,000	34.6%	7,195,000	2,489,000	+355,000
20 and 21	2,305,000	28.1%	7,311,000	2,128,000	+323,000
22 through 24	1,794,000	15.4%	10,941,000	1,686,000	+184,000
Total, 14 through 24	7,855,000	16.8%	37,917,000	6,466,000	+694,000
25 through 29	1,575,000	9.3%	20,100,000	1,870,000	+197,000
30 through 34	980,000	5.1%	20,917,000	1,270,000	+290,000
35 through 39	800,000	4.2%	19,261,000	980,000	+243,000
40 through 44	550,000	2.9%	17,331,000	888,000	+173,000
45 through 49	355,000	2.0%	15,000,000	270,000	+ 55,000
50 through 54	186,000	1.2%	11,402,000	137,000	+ 2,000
55 through 64	111,000	0.8%	26,776,000	104,000	+ 7,000
Total, 25 through 64	4,844,000	3.5%	130,785,000	4,665,000	+999,000
Total, 14 through 64	11,940,000	7.7%	191,000,000	11,402,000	+130,000

5-Year Enrollment Trends Among Older Students

Population aged 25 through 34

	1979			Change from 1974		
	Men	Women	Total	Men	Women	Total
Total	10,715,000	17,674,000	34,389,000	+10.2%	+17.2%	+17.7%
In college	1,309,000	1,319,000	2,675,000	– 1.1%	+38.7%	+21.5%
Full time	909,000	384,000	930,000	– 0.7%	+41.8%	+12.9%
Part time	720,000	985,000	1,705,000	– 1.4%	+69.4%	+38.9%
Freshman	190,000	201,000	441,000	+15.8%	+48.7%	+30.8%
Sophomore	169,000	212,000	405,000	+15.3%	+66.0%	+15.7%
Junior	203,000	146,000	349,000	+10.4%	+43.1%	+36.3%
Senior	185,000	139,000	331,000	– 7.7%	+60.0%	+15.0%
Graduate	699,000	340,000	1,149,000	+ 0.9%	+49.9%	+33.3%
2-year college	399,000	375,000	804,000	+15.9%	+75.9%	+17.9%
Full time	102,000	81,000	199,000	+ 3.0%	+92.0%	+21.7%
Part time	196,000	294,000	470,000	+34.4%	+76.0%	+18.0%
4-year college	400,000	402,000	882,000	0.0%	+62.5%	+21.0%
Full time	200,000	136,000	340,000	+14.0%	+33.3%	+ 1.3%
Part time	207,000	260,000	522,000	+14.7%	+83.4%	+48.7%

Population aged 35 and over

	1979			Change from 1974		
	Men	Women	Total	Men	Women	Total
Total	49,437,000	49,487,000	91,884,000	+ 6.9%	+ 6.9%	+ 6.9%
In college	487,000	914,000	1,402,000	+ 2.3%	+66.0%	+50.0%
Full time †	81,000	147,000	228,000	–33.9%	+42.7%	+ 9.1%
Part time †	406,000	784,000	1,180,000	+ 9.9%	+73.0%	+63.0%

† Percent or previous class was not released by U.S. per cent of the sample.

SOURCE: U.S. Census of the Census

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MEMORANDUM OF OPINION

This legal memorandum addresses several issues concerning the legality and enforceability of the final regulations for Family Contribution Schedules (FCS) published by the Secretary of Education on March 13, 1981,[1/] which revised, rescinded, and amended final FCS regulations published January 19, 1981[2/] by the outgoing Carter Administration. As explained below, it is our opinion that the Reagan regulations are invalid, as a matter of law, and that the Carter regulations, having satisfied the basic FCS statutory requirements, are effective and unamendable, and thus should be in effect for the 1981-82 academic year.

I

STATUTORY FRAMEWORK

In 1972, the Congress enacted the Education Amendments of 1972 which included a new program of Basic Educational Opportunity Grants (BEOG) for the benefit of students receiving

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1/ Hereinafter referred to as the Reagan regulations.

2/ Hereinafter referred to as the Carter regulations.

postsecondary education training. 20 U.S.C.A. §1070a (1978), as amended. Under the BEOG program (now referred to as Pell Grants, at §1070a (a)(1)(C)), students are entitled to receive a grant for a portion of their educational costs. The grant award is determined by subtracting from the statutory set amount per student an amount equal to what is computed to be the expected family contribution. Id. at §1070a (a)(2)(A)(i). A further reduction occurs according to the statute if the Congress appropriates less than the full amount necessary to meet the needs of all students entitled to a grant. Id. at §1070a (b)(3)(B)(i).

To determine the expected family contribution, the statute requires the Secretary of Education to publish annually in the Federal Register a proposed Family Contribution Schedule by July 1 of each calendar year for the succeeding academic year. Id. at §1070a(a)(3)(A)(i), as amended and recodified at 20 U.S.C. §1089 (a)(1). It also requires the Secretary to provide thirty days for public comment. Id. In addition, the statute specifically provides that the proposed schedules, together with any amendments, are to become effective the following academic year only if either House of Congress does not adopt by October 1 following the submission of the proposed schedules, a resolution of disapproval. Id. at §1070a (a)(3)(A)(ii), as amended and recodified at §1089 (a)(2).

II

FACTS

On August 1, 1980 the Carter Administration published proposed FCS for the 1981-82 academic year and provided sixty days for public comment. 45 Fed. Reg. 51243 (1980). The proposed rule specified that cost adjustments based upon the 1980 CPI were estimated and that the final regulation would reflect actual figures at the end of the year. Id. No resolution of disapproval was passed by either House by October 1, 1980.

On January 19, 1981, the Carter Administration promulgated final Family Contribution Schedules, adjusted to reflect actual cost data for 1980. 46 Fed. Reg. 5320 (1981). The regulation was issued subject to a 45 day review and veto by concurrent resolution of Congress pursuant to the General Education Provisions Act (GEPA). 20 U.S.C.A. §1232 (d)(1), as amended.

On January 29, 1981 the President imposed a freeze on all final regulations which had not yet become effective for sixty days. 46 Fed. Reg. 11227 (1981). On March 31, 1981, Secretary Bell published final regulations without notice and comment for FCS for the 1981-82 academic year which revised the Carter regulation by rescinding the 1980 cost of living increase and restoring the 1980-81 family size offsets. 46 Fed. Reg. 16823

(1981). Notice of proposed rulemaking was waived on the grounds that: 1) the issue of using the CPI was raised by the proposed Carter regulation in August, 1980; and 2) since processing grant applications is imperative in order to make awards after July 1, 1981, and since the effective date of the FCS is delayed 45 days for Congressional review under GEPA, a proposed rule with notice and comment would be unnecessary and impracticable within the meaning of the Administrative Procedure Act, 5 U.S.C. §553(b).

III

NO BASIS EXISTS FOR THE SECRETARY OF EDUCATION TO AMEND THE FAMILY CONTRIBUTION SCHEDULES OUTSIDE THE SCOPE OF THE ENABLING STATUTE

The general purpose of Congressional delegation of authority to regulate is to remove the Congress from the task of predetermining and fashioning policies and programs to implement broad legislative mandates in presently unforeseeable circumstances. See e.g. American Trucking Assocs., Inc. v. United States, 344 U.S. 298, 309-10 (1953). For this reason, the Supreme Court has upheld the delegation of legislative (rulemaking) power within prescribed limits. Lichter v. United States, 334 U.S. 742, 785 (1948). As stated in Manhattan General Equipment Co. v. Commissioner of Internal Revenue:

> "The power of an administrative officer or board to administer a federal statute and to prescribe rules

> and regulations to that end is not the power to make law, for no such power can be delegated by Congress, but the power to adopt regulations to carry into effect the will of Congress as expressed by statute."
>
> 297 U.S. 129, 134 (1936).

Under the BEOG program (now and hereinafter referred to as the Pell Grant program), the Congress clearly delegated to the Secretary the duty to promulgate substantive rules for the purposes of providing family contribution schedules which would set forth the dollar amounts to be offset against family income by family size. 20 U.S.C.A. §1070a(a)(3)(A)(i), as amended and recodified at §1089(a)(1). Therefore, the issue discussed herein focuses strictly upon the question of whether proper statutory procedure was followed by Secretary in promulgating the March 13, 1981 regulation.

The starting point in every case involving the construction of a statute is the language itself. Ernst and Ernst v. Hochfelder, 425 U.S. 185, 197 (1976), quoting Blue Chip Stamps v. Manor Drug Stores, 421 U.S. 723, 756 (1975) (Powell, J. concurring). Under the Pell Grant program, Congress specifically set forth the procedure to be followed by the Secretary. That procedure as described earlier, requires 1) publishing a proposed rule by July 1, well in advance of the next academic year, 2) providing an opportunity for the public to comment on the proposed

rule, and 3) submitting the proposed rule to the Congress for review and possible legislative veto by October 1 of the year in which the proposed schedule is published.

The statute does authorize amending the schedules proposed on July 1, but is unclear on its face as to how or when the amendment process is to proceed. By reading the statute in conjunction with Congressional intent, however, it becomes clear that Congress intended to retain its review and veto power over amendments as well. To read the statute otherwise would permit the Secretary to avoid Congressional review and veto over substantive amendments proposed after October 1 and thus defeat the plain language of the statute and Congressional intent. Such action would be outside the scope of authority delegated to the Secretary by the Congress. Agencies delegated authority to promulgate rules have no warrant in law to replace a statutory scheme with a rulemaking procedure of their own invention. N.L.R.B. v. Wyman-Gordon Co., 394 U.S. 759, 764 (1969).

Express Congressional intent, while sparse, rests clearly on both practical and policy considerations. Implicit in the procedural requirements for promulgating the FCS is the practical necessity of establishing family offset amounts well in advance of the next academic year, or risk jeopardizing the entire program. Since students

normally apply to schools for admission in the fall and usually determine which school they will attend by early spring, it is obviously imperative for students, families, and schools to know what the costs of attendance will be and, more importantly, what aid will be forthcoming. Even though the grant awards are not made effective until after July 1 of the academic year involved, the intent of Congress was to permit Pell Grant applications to be processed during the January to July period preceding the academic year in order for the school and student to know if a grant would be available; and, if so, how much aid could be expected. Without this information by the spring preceding the academic year involved, many students might very likely decide not to attend certain schools solely on the ground of cost. This result would run completely counter to the basic intent of Congress underlying the Pell Grant program itself.

As stated by Rep. Pucinski, one of the managers of the bill on the part of the House, the BEOG program allows students a choice of schools; "no longer will they need to shop around for the school which offers the most money". 118 Cong. Rec. 20297, June 8, 1972. Similarly, Rep. Erlenborn, also a manager, described the program on the floor of the House as having two overriding concerns: to

benefit middle income students and to increase options for all students. Id. at 20299. To permit amendments to the final FCS after the statutory period has run for publishing and Congressional review, could result in limiting options for students, directly contrary to what Congress intended when it established the Pell Grant program.

A second Congressional purpose underlying the statutory scheme is associated with the delegated authority to the Secretary to determine what a family's expected contribution to the cost of attendance should be. The criteria to be followed in promulgating the FCS are also specified by statute (20 U.S.C.A. §1070a(a)(3)(B)(ii), as amended and recodified at 20 U.S.C.A §1089(b)(2)). Substantively, the statutory criteria form the framework for the Secretary to implement the formulation of family contribution schedules pursuant to the authority delegated to him by the Congress. To insure that the Secretary exercises his equitable decisions with care, however, the Congress provided a "safety net", that is, a statutorily required review by each House of Congress of the published schedules, together with any amendments, during which period either House could exercise a legislative veto.

In fact, a one House veto has never been exercised since the process established in 1972 has worked. The reason

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it has been successful is because each House and the Department have been able to accommodate their differences realizing that to not do so within the statutory time frame, well in advance of the academic year, would seriously disrupt the operation of the program and harm its intended beneficiaries. H. Buff & E. Gelhorn, Congressional Control of Administrative Regulation: A Study of Legislative Vetoes, 90 Harv. L. Rev. 1369, 1385 (1977).

As stated by the Supreme Court, "the rulemaking provisions of the [Administrative Procedures Act] were designed to assure fairness and mature consideration of rules of general application". N.L.R.B. v. Wyman-Gordon Co., 394 U.S. 759, 764 (1969). A plethora of cases hold that a substantive rule imposing rights and obligations on affected parties which is not promulgated in accordance with procedural requirements (of the APA) is void. See e.g. N.L.R.B. v. Wyman-Gordon Co., supra; Texaco, Inc. v. Federal Power Commission, 412 F.2d 740, 744 (3rd Cir. 1969); Hotch v. United States, 212 F.2d 280 (9th Cir. 1954); National Motor Freight Traffic Assoc., Inc. v. United States, 268 F. Supp. 90 (D.C.D.C. 1967) (three judge court), aff'd per curiam, 393 U.S. 18 (1968). As one of the earliest cases to consider the issue of compliance with the procedural rules of theAPA stated:

> "The Congressional directive in regard to the procedure to be followed in the issuance of agency regulations must be strictly complied with, since the issuance of regulations is in effect an exercise of delegated legislative power." Hotch, Supra, 212 F.2d at 282.

> "The Acts [APA and Federal Register Act] set up the procedure which must be followed in order for the agency rulings to be given the force of law. Unless the prescribed procedures are complied with the agency (or administrative) rule has not been legally issued, and consequently it is ineffective." Id. at 283.

What is true for rules promulgated under the APA is equally true for rules promulgated under alternate procedures specified by statute to implement a program requirement, as in the matter at hand.

It is our interpretation of the Pell Grant statute that substantive amendments to proposed Family Contribution Schedule regulations must also be proposed within the statutory review and veto period of July 1 to October 1. Therefore, regulations issued after October 1 to substantively amend legally issued regulations must be invalid. Thus, the regulations issued by the Secretary on March 13, 1981 are invalid and without force of law.

IV

IF SUBSTANTIVE AMENDMENTS
MAY BE ISSUED AFTER
OCTOBER 1, THE SECRETARY
MUST FOLLOW THE PELL GRANT
AND NOT THE APA OR GEPA PROCEDURES

Absent law to the contrary, agencies generally do have wide latitude to fashion their procedural rules and to change their minds. Seacoast Anti-Pollution League v. Costle, 597 F. 2d 306, 308 (1st Cir. 1979) quoting Vermont Yankee Nuclear Power Corp. v.

N.R.D.C., 435 U.S. 519, 543-44 (1978). However, it is a general and well established principle that a more specific statute will be given precedence by the courts over a more general one, regardless of their sequence. Busic v. United States, _____ U.S. _____, 100 S.Ct. 1747, 1753 (1980). Furthermore, when there are two statutes upon the same subject, the earlier being special and the latter being general, it is settled law that the special act remains in effect as an exception to the general act unless absolute incompatibility exists between the two and all matters coming within their scope. State of Utah, Etc. v. Kleppe, 586 F.2d 756 (10th Cir. 1978) quoting 2 A Sutherland §51.05 (4th Ed.).

The rulemaking procedures created by the Higher Education Act for promulgating the Family Contribution Schedules were enacted solely and specifically to implement that part of the Pell Grant program. The FCS statutory provision does not incorporate by reference either the Administrative Procedures Act or the General Education Procedures Act. Furthermore, the APA directs agencies to follow specific statutory requirements where provided, inasmuch as it is a general statute. 5 U.S.C.A. §553(b). The fact that the Department chose to voluntarily comply with APA rulemaking procedures (the APA rulemaking procedures are not applicable by definition to grant programs, Id. at §553 (a)(2)) does not make them more applicable when specific procedures are mandated by law. 36 Fed. Reg. 2532 (1971). It also does not provide the Secretary discretionary

authority to use general procedures when specific procedures are mandated. Thus, use by the Secretary of the APA's rule-making procedures for amending a legally issued regulation is invalid.

This illegality is compounded by the fact that the Secretary used the APA's exemption procedure for avoiding notice and comment otherwise required by the APA. Id. at §553(b)(B). While this memorandum will not address these issues in detail, it is our opinion that the Secretary's use of these procedures is also fatally defective. First, Section 553(b) states that use of the good cause provision for waiving notice and comment is not appropriate if a statute requires notice -- the FCS section of the Higher Education Act does. Second, due process considerations may require agencies to provide affected parties an opportunity to be heard since their rights and obligations are being amended. Third, and related to the second point, the Secretary's action may arguably not be unnecessary and impracicable and is arguably contrary to the public interest and due process.

With respect the the use of the GEPA which provides, inter alia, for a period of 45 days in which the Congress may review final regulations of the Department and adopt a concurrent resolution of disapproval, it is our opinion that this provision is inapplicable to the Family Contribution Schedule. 20 U.S.C.A. §1232(d)(1), as amended. This general statute was enacted in 1974, but as stated earlier, the special act (Pell Grant) remains in effect

as an exception to the general act. Therefore, whereas GEPA's procedure applies to most final regulations of the Department, the procedure does not apply to the FCS since a separate specific procedure is set forth for promulgating FCS regulations. Furthermore, to substitute a concurrent resolution of disapproval for a one House resolution of disapproval is to illegally enlarge upon the statutory procedure and create a stricter test for disapproval.

In light of the fact that neither the APA nor the GEPA procedures apply, the only procedure which can apply if it is held that substantive amendments can be promulgated after October 1, is the Family Contribution Schedule procedures themselves. Two arguments can be advanced for this position.

First, as has been stated previously, the Congressional intent in enacting the FCS procedures was premised upon 1) finalizing the Schedules well in advance of the academic year, and 2) weighing the equities of the Secretary's decision and subjecting that decision to possible one House veto. This was the basis for our conclusion that an amendment after October 1 was not contemplated by Congress. Assuming amendments to the Schedules can be made, however, this procedure provides the only means to effectuate the legislative intent of providing for possible one house veto.

Since the amendment process would occur outside the statutorily prescribed time frame, however, the court would

have to set a time period during which the Congress must act to disapprove, in order for the procedure to be compatible with the originally prescribed procedure. While such an order does present legal difficulties, case law does exist to support a judicial order designed to ensure fairness and due process which fashions rulemaking procedues not provided for by statute. See e.g. Joseph v. U.S. Civil Serv. Comm'n, 554 F.2d 1140, 1154 n. 26 (D.C. Cir. 1977) citing K. Davis, Administrative Law of the Seventies, §6.01-7 to 6.01-9 and Koch, Public Procedures for The Promulgation of Interpretative Rules and General Statements of Policy, 64 Geo. L.J. 1047, 1059-71 (1976); Curlott v. Hampton, 438 F.Supp. 505, 508-09 (D. Alaska 1977). It should be noted however, that the Supreme Court has recently stated that the courts should order, only in rare circumstances, specific procedures on remand. Vermont Yankee Nuclear Power Corp. v. N.R.D.C., Inc., 435 U.S. 519, 524 (1978).

Second, by analogy, if one examines the APA, amendments to legally issued regulations are considered regulations, which if substantive in nature (that is impose rights and obligations on affected parties), must, in order to have the force of law, be issued legally as well. 5 U.S.C.A. §§551(5) ; 553(b); see Texaco, Inc. v. FPC, supra, at 742-44. This means the amendment must comply with statutorily prescribed procedures, or it will be invalid unless a legitimate exception exists. The same principle of contruction is of equal applicability

to amendments of regulations issued pursuant to a mandated procedure. Thus, if substantive amendments can be made to the FCS after October 1, they must be in accordance with the FSC procedure or a procedure which would substantially satisfy the same Congressional purpose.

V

EFFECTIVE DATE

If our principle theory is upheld, to wit, the Carter regulation is unamendable except for minor technical changes, a remaining issue is its effective date. Since we have argued that Section 1232(d)(1) of the GEPA is inapplicable, the effective date should be January 19, 1981. Assuming the 45 day review period required by Section 1232(d)(1) is applicable, that period has also now run.

The Secretary might argue that the period was tolled on January 29, 1981 by the Presidential freeze until March 31, 1981. Thus, it would not be effective. Notwithstanding the above argument, the Presidential freeze applied to Executive Branch action not the Legislative Branch. By the terms of the statute, the Congress reserved to itself a review period which the President has no authority on his own to alter. Therefore, the regulation is effective immediately.

VI

CONCLUSION

It is our opinion on the basis of statutory interpretation that the Secretary may not substantively amend the Carter

Administration regulation of January 19, 1981 which substantially complied with the procedures mandated by Congress for promulgating Family Contribution Schedules under the Pell Grant program. To permit the Secretary to amend the January 19, 1981 Schedules would violate both the plain language of the statute and the intent of Congress. Therefore we believe a suit seeking injunctive and declaratory relief would prevail and would result in the Carter regulation being effective for the upcoming academic year under court order.

If you have any questions concerning this Memorandum, please call Richard E. Verville or Peter S. Leyton.

STATEMENT

OF THE

AMERICAN STUDENT DENTAL ASSOCIATION

ON

FINANCING DENTAL EDUCATION AND

PROPOSED CHANGES IN STUDENT LOAN PROGRAMS

Proposed changes in student assistance programs by the Administration already are causing a panic situation in the financing of dental education that may affect the nature of dental practice in the future. Obtaining a dental education is extremely expensive; the cost of getting that education has at most institutions outpaced the inflation rate dramatically. The average tuition at both public and private dental schools has increased more than 140 per cent over the last six years. According to a report compiled by the American Dental Association Council on Dental Education the mean first-year tuition in a United States Dental School is $4,393 and $5,687 for residents and non-residents respectively. Mean value education costs for text books, fixed fees and required instrument purchases during the first year are an additional $2,857. It is important to note here that the average dental student is faced with fees totalling $8,544 even before allowing for living expenses. According to the American Dental Association, total education costs are over $18,000 a year. At several instutitions tuition alone approaches $16,000.

Clearly these are intimidating numbers for a student to face. The rigorous schedule of a dental school curriculum offers little time for outside employment while in school. Most programs keep dental students in school 40 hours a week and require the remaining time for studies and the preparation of laboratory projects. The preparation of these technique projects require not only much time but also supplemental expenditures for additional supplies and equipment. Compounding this problem is the fact that many dental schools require attendance through the summer months. Therefore dental students across the nation by virtue of their curriculum must rely heavily on low-interest student loans to attain their education. Access to adequate funds at low-interest rates is vital for these dental students.

The Guaranteed Student Loan Program is currently the most utilized student assistance program in the nation, two thirds of all dental students are currently receiving Guaranteed Student Loans. This program offers several features that make it an ideal foundation to build a student assistance package. These are: 1) in-school interest subsidy for the 9% rate at which these loans are made; 2) six-month post graudate grace period before repayment is to begin; and 3) a special allowance for the duration of the repayment period to cover the difference between the 9% interest rate and the 91-day Treasury Bill rate plus 3.5% which the government pays to lenders.

Maintaining the in-school interest subsidy and special allowance is the most important feature of the GSL Program to maintain. The American Student Dental Association is alarmed that eliminating the in-school interest subsidy would place undue financial burdens on dental students needing to borrow sufficient funds for their education. We believe that maintaining reasonable interest rates, the in-school interest subsidy provision and special allowance are crucial in controlling rising educational debts. Dental students are amassing debts from $20,000 to over $50,000 for their dental education. Clearly a dental student is not in a position to pay the interest while in school on debts of this magnitude and adding the interest to the principal would result in interest being paid on interest while at the same time creating an unmanageable debt.

It is important to note that most dental students have completed 4 years of undergraduate work prior to entering dental school. Amassing interest payments over an 8 year period could place the dental student in such deep debt that he or she would find it impossible to recover from. We are deeply concerned with the implications large educational debts will have on dental practice locations, quality and type. Uncontrolled educational debt will put pressure on new graduates to establish high dental fees which would be a reversal of the commendable record the dental profession has established in keeping fee increases well below the rate of inflation. Large educational debts also complicate the picture for the new

graduate seeking to borrow funds for starting their practice. Start-up costs can range from $40,000 to $90,000. A new practitioner's borrowing power for start-up costs is inverely proportional to his total financial obligations (i.e., size of debts and interest). Large interest payments will cut directly into the gross amount that new dentists are able to borrow. It would indeed be a bitterly ironic situation if the young graduate after spending 8 long years pursuing a profession would be unable to borrow sufficient funds to start their new career.

ASDA feels that in determining what changes in the 1980 Admendment to the Higher Education Act be enacted by Congress to meet 1982 Budget Authority levels, funding for the interest subsidy and special allowance provisions of the GSL be maintained. The Administration's request of $1.77 billion for FY82 is a figure well below the FY81 request of $3.34 billion will not meet the projected loan volume need. ASDA suggests that a figure of $2.5 billion be approoriated for FY82 with certain changes in the authorization language.

ASDA is aware of the current fiscal constraints imposed and respectfully recommends the following cost-saving measures be enacted. We believe these measures are fiscally responsible without damaging the effectiveness of the programs.

1) Reduce the special allowance paid to lenders. Sixth percent of the cost of the GSL program is directly linked to the forces of the rising and falling 91 day Treasury Bill rates. It is estimated that for every 1 percent change in the T-Bill rate, program costs change by approximately $100-150 million. Currently the special allowance is paid quarterly at an annual rate equaling the 91 day Treasury Bill rate plus 3.5 percent. ASDA recommends that the special allowance be calculated using the 91 T-Bill rate plus 1.5 percent. This would provide a saving to the government of between $200-300 million without affecting the loan volume available to students.

2) Insure borrowers for death and disability. According to figures provided by the Department of Education losses for FY81 due to death disability and bankruptcy amounted to a total of $29 million. A group insurance program should be created to offset these losses to the Federal government; this could be done at a minimal cost to loan recipients. Borrowers could be charged a one time fee of 3/4 percent of their loan volume to purchase a death and disability policy for the loan. If this had been done in 1980 when the loan volume was $4.8 billion the FY81 losses of $29,000,000 could have been covered by the $36 million in revenue generated through the insurance program. A student receiving a $2,000 loan would have paid $15.00.

3) Reduction in the Administrative allowance for lenders.

As the cost of acquiring a dental education rises, the Health Professions Student Loan Program becomes an increasingly important source of financial assistance. The lack of availability of funds from the GSL Program will force many students to seek funds through the HPSL Program. Currently almost 2,000 dental students are utilizing this program at a loan volume of $2.964 million. ASDA urges the committee to fund this loan program at a level of $4.5 million as a budget line item targeted specifically for dental students. We feel that the increased appropriation is justified and necessary due to the following:

1) Dental students are faced with fixed fee and tuition costs that are dramatically outpacing inflation. We also face price increases in equipment and supplies that are unique to dental students. No other type of health profession student has equipment purchases of such a large nature while pursuing their education.

2) With the loss of federal capatation to dental schools in FY82 some of the lost funds to the dental schools will be made up in tuition,

fee and equipment charge increases unique to the next few academic years.

3) The tight money situation that will exist in the GSL Program will force more students into using the HPSL Program.

ASDA is concerned that without properly authorized loan programs a career as a dentist will not be accessable to those qualified. At a time when competition in the educational loan market is keen, students in the health field must have adequate low-interest funds to meet their high educational costs. We have reached the unfortunate point where sutdnets from lower middle class socio-economic families find it impossible to raise funds necessary to attend dental schools. In addition to the possible restricted access of less wealthy students into these schools, a bleak financial trend will affect the career choices of health profession students after graduation.

In the past, dental students, and other health profession students, have proven to be quite realiable in meeting repayment obligations of federal student loans. For example, the default rate of Health Professions Student Loan Program, a loan source restricted to health profession students, has been consistently near the 1 percent mark since the program's inception. Fiscal accountability is an important cornerstone to building professional moral standards. ASDA is in favor of tough provisions to guarantee repayment of all student loans.

At this juncture I wish to point out some of the problems the new dentist, a graduate of the Class of 1981, will face.

It is valuable to draw some comparisons with the graduate of only a few years ago. Twenty-five years ago graduates from dental school spent $3,600 for their education. They could expect an average annual income of over $12,000 for their first four years with the ability to locate in just about any area; finding a national shortage of health professionals. The 1981 graduate faces a picture that can only be described as grim. They are graduating into a profesion that is experiencing a manpower maldistribution problem. The 1981 graduate is leaving

school with an average educational debt in excess of $27,000. They are entering into an economy that is suffering a serious downturn with high interest and inflation rates. The number of bankruptcies filed by professionals has been on the upswing recently. Costs for starting a new practice can run anywhere from $40,000 to $90,000.

Thank you for your attention. If you have any questions, I will be happy to answer them for you.

Dr. Orest G. Komarnyckyj, D.D.S.
ASDA Representative on Legislation

Senator RANDOLPH. The information has been helpful and at least today we have begun to pull together those, let us say, proposals in part, those concerns which are many, and hopefully a commitment within not only your grouping but in the membership here, that may express itself during the next few weeks.

Thank you very much.

[Whereupon, at 1:55 p.m., the subcommittee adjourned.]

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